



Agribusiness Committee Retreat

February 12, 2004

8:30 a.m.

Washington Building

Richmond, Virginia

APPEARANCES:

Clarence D. Bryant, III , Committee Vice Chairman

The Honorable J. Carlton Courter, III, Commissioner of Agriculture

Jordon M. Jenkins, Jr.

Buddy Mayhew

Thomas E. West

The Honorable Matt Erskine, Deputy Secretary of Commerce and Trade

Claude B. Owen, Jr.

COMMISSION STAFF:

Carthan F. Currin, III, Executive Director

Mary Cabell Sherrod, Manager of Communications and Committee
Operations

Timothy J. Pfohl, Grants Program Administration Manager

Britt Nelson, Grants Coordinator - Southside

Jerry Fouse, Grants Coordinator - Southwest Virginia

Ned Stephenson, Managing Director of Strategic Investments

Martha Moore, Virginia Farm Bureau

Linda Wallace, Halifax County

Anne Marie Cushmac - Senior Assistant Attorney General

VICE CHAIRMAN BRYANT: Good morning to everyone, we appreciate the reception hosted by Virginia Tech that they had for us last night. We also want to thank the Virginia Farm Bureau for hosting the dinner. Carthan, would you please call the roll?

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1 MR. CURRIN: Commissioner Courter?
2 COMMISSIONER COURTER: Here.
3 MR. CURRIN: Mr. Fields?
4 MR. FIELDS: (No response.)
5 MR. CURRIN: Mr. Jenkins?
6 MR. JENKINS: Here.
7 MR. CURRIN: Mr. Mayhew?
8 MR. MAYHEW: Here.
9 MR. CURRIN: Mr. Owen?
10 MR. OWEN: Here.
11 MR. CURRIN: Mr. Stallard?
12 MR. STALLARD: (No response.)
13 MR. CURRIN: Mr. West?
14 MR. WEST: Here.
15 MR. CURRIN: Delegate Johnson?
16 DELEGATE JOHNSON: (No response.)
17 MR. CURRIN: Mr. Chairman?
18 VICE CHAIRMAN BRYANT: Here.
19 MR. CURRIN: We have with us, and we're looking forward to your
20 presentation, Mr. John-Mark Hack. For those of you that may not know John-Mark, last
21 year he was acting as my counterpart in the Commonwealth of Kentucky and worked for
22 the Governor. Since leaving the Governor's Office last year Mr. Hack has opened his
23 own consulting firm. I think the presentation this morning will allow the Committee to
24 see what a neighboring state has been involved in with regard to agricultural issues, and
25 also it relates to their tobacco fund and how they use their fund to incorporate a strategy
26 for Kentucky. The Chairman and I thought it would be pertinent to have Mr. Hack make
27 a presentation. He has also brought Mr. Joel Benson, a colleague, to join him. Mr.
28 Chairman, without further ado, I'd ask John-Mark to make his presentation.
29 MR. HACK: Thank you, Carthan, I'm pretty excited this morning,
30 and I've been up since five o'clock thinking about doing this presentation. I always enjoy
31 talking about the tremendous way that entrepreneurship is sweeping over the nation's
32 most tobacco-dependent economy, which is Kentucky, as a result of the commitment of
33 the Master Settlement proceeds and agricultural development. After yesterday I'm
34 equally excited about what you have going on here and about what the Commission has
35 already accomplished and about the good work that VDACS is doing on an ongoing
36 basis, about the Governor's involvement in agriculture and his interest. I might speed
37 through this presentation because I am so excited. If you have questions or comments
38 slow me down and interrupt me. I'd like to proceed as informally as we can. I've got a
39 lot of information I want to share with you.
40 I've divided it basically into three parts. The first part, of course, is what you
41 want to hear about, and that is what is going on in Kentucky with the Master Settlement
42 Agreement proceeds. The second part is just an assessment based on a little bit of
43 research that I've done based on your conversations yesterday and conversations with you

1 at the reception and dinner about agriculture and the future of agriculture in Virginia.
2 The third part is some suggestions that I would make to you for action in the area of
3 agricultural development in Southside and Southwest.

4 Innovation and profitability and agricultural diversification, lessons from
5 Kentucky models for Virginia. This is where it starts for me, this is where my passion is,
6 and this is where my heart is, this is where my company is. We're about creating rural
7 business that benefits farmers and especially farmers that are suffering from the effect of
8 an over-dependence on tobacco and over-dependence on whatever it is that they might be
9 attached to in their agricultural economy. In 1998 it started going downhill, and I have
10 about half of what I did, and I put my life savings into it, and it's just disappeared. That's
11 from a farmer near Danville, Robert Roberts, and that's a quote from the Virginia
12 Business Article, February, 2004. When we talk about agriculture it's not about the
13 bureaucracy, it's not about the Commission's investment, it's not about anything other
14 than Robert Roberts and his future and the future of this rural community in Southside
15 and Southwest Virginia.

16 Let me tell you a little bit about Kentucky and put this thing in context.
17 Kentucky ranks fifth in the total number of farms, and you can see the other states on the
18 slide that we compare it to. Tobacco is grown in a hundred and eighteen of a hundred
19 twenty counties in Kentucky. We are by definition the most tobacco-dependent farm
20 economy in the world. More of our farm proceeds are derived from tobacco, that's burley
21 tobacco, dark fiber tobacco, than any other farm economy, including North Carolina,
22 because of their historic diversification. We have a history of over-dependence that goes
23 across our state in all but two of our counties. The average size farm is very comparable
24 to what you have here in the Commonwealth of Virginia. We're about a hundred and
25 fifty-five acres. I think saw in the most recent agricultural census you all are up to about
26 a hundred and eighty acres now, about one-third of the national average for farm size.
27 When we talk about competing in commodity markets it's a no-brainer, and we can't do it.
28 Our farms are not large enough, and our resources are not sufficient. Our farm gate sales
29 are typical of what Virginia's are, looking at your ag census. Fifty-one thousand of our
30 eighty-eight thousand farms have farm gate sales of less than ten thousand dollars, thirty-
31 one thousand of those are less than a hundred thousand dollars, and only six thousand of
32 the eighty-eight thousand farms have gross sales of over a hundred thousand dollars, and
33 that's comparable to what you all have across the Commonwealth here in Virginia.

34 We're the number one burley tobacco producer, we're the number two tobacco
35 producer after North Carolina, and we're the number seven hay producer, and we're the
36 largest beef cattle state east of the Mississippi River. When Mr. Roberts talked about
37 going downhill, C. D., that's the hill he talked about right there, that's the downhill. From
38 1997 until today the producers in this room know better than anyone their short-term
39 earning opportunities have been reduced and their long-term earning potential has been
40 reduced by over sixty percent. That's a devastating impact, and that's happened all across
41 the burley belt and the flue-cured belt as a result of changes in the market place, changes
42 that are outside of our control. Also changes in the purchasing habits of the
43 manufacturers. It doesn't have anything to do with the quality of our product or the

1 sophistication of our producers, and it has everything to do with the global market place
2 that has conditions that are outside of our control. That decline is what prompted our
3 Governor and our General Assembly back in 2000 to look at how we could utilize
4 proceeds from the Master Settlement Agreement for purposes of agricultural
5 development.

6 The mission of the organization that I ran until June of last year was only about
7 agricultural development, we didn't have the broader economic development mission that
8 the Commission has. By legislation we were mandated to increase net farm income,
9 mandated to create new farm-base business opportunities, we were mandated to work
10 exclusively in the farm community, and that's because of the pervasive dependence on
11 tobacco throughout our agricultural economy.

12 Let me tell you a little bit about how the Agricultural Development Fund is set
13 up, fifty percent of the Master Settlement Agreement proceeds, just like in Virginia. In
14 2002 there was a total of just over a hundred and eighty million dollars, and in 2004, a
15 hundred and seventeen million four hundred thousand dollars for the current biennium.
16 We did not do any indemnification payments, save for a forty million dollar supplement
17 to the second year of the Phase II payment. You might remember that that Phase II
18 payment, we had a big one the first year, and it dipped way below in the second year. We
19 took forty million out of the hundred and eighty million and supplemented the Phase II
20 payments with the forty million dollars. That was a one-time deal and there was never
21 intention of repeating that, so we had a little different structure.

22 That's an awful slide, and I know, but I had it up there to show you how the
23 fund was set up. Sixty-five percent of it is earmarked for state level programs and
24 projects. That is investments that are a regional or statewide impact. That includes
25 eighteen million dollars in direct to the farm cost share assistance to improve water
26 quality and control soil erosion. It includes debt service on a rural water line extension
27 project. It includes debt service for a twenty-five million dollar bond issue for farmland
28 preservation efforts on a statewide level and a model county program in the Lexington
29 area. It's three point two million dollars for merit based bonuses for cooperative
30 extension network, and I'll tell you the driving force behind that in just a minute. Three
31 point six million for administrative support over two years, and that left thirty-eight point
32 nine million over the current biennium for investment in agricultural development
33 projects on a statewide level. Thirty-five percent of that fifty percent, or forty-one point
34 one million dollars, is for individual counties on the basis of their relative tobacco
35 dependence. A hundred eighteen of a hundred twenty counties grow tobacco. Two of
36 those counties have zero allocated to their counties. Our largest producing counties were
37 allocated over a million dollars for projects specifically in their county aimed at
38 improving agricultural economy. The other fifty percent of the Master Settlement
39 Agreement was utilized, and twenty-five percent went to a variety of early childhood
40 development initiatives, and twenty-five percent went to a variety of health related
41 initiatives, including a high risk insurance pool for folks that couldn't get coverage in the
42 individual market, like what your foundation is doing here and some other health related
43 issues. Interrupt me anytime you have a question.

1 Both the state money and county money, the fiduciary responsibility for all
2 those funds rests with the State Agricultural Development Board. It's chaired by the
3 Governor. The Commissioner of Agriculture is the vice chair, the Dean of the College of
4 Agriculture at our largest land grant institution is an ex-officio member, Secretary of the
5 Economic Development Cabinet is an ex-officio member, and there are eleven other
6 members appointed by the Governor, including six farmers from throughout the state, a
7 State Farm Bureau Representative, a State Chamber of Commerce Representative, an
8 agricultural lender, an attorney with a rural background and knowledge of agricultural
9 policy. The membership of that Board is written in the statute.

10 MR. ERSKINE: No legislators?

11 MR. HACK: No legislators. Carthan and I have discussed that
12 difference in dynamics before, and it's highly significant, a highly significant difference
13 in dynamics. Our Constitution would prohibit our legislators from participating in the
14 decision making of the appropriations that they have already made. Once the legislature
15 appropriates the money they can't mess with it anymore, and it's the job of the executive
16 branch to implement it.

17 MR. CURRIN: Is the Commissioner of Agriculture, is that an
18 elected position?

19 MR. HACK: That's an independently elected position, and that's the
20 different dynamics that we have in state government, independently elected of the
21 Governor. I'm going to talk about Governor Warner's involvement and its importance. In
22 Kentucky our Governor's involvement in this effort made all the difference in the world,
23 and with no disrespect to our Commissioner of Agriculture. The chief executive in the
24 junior Commonwealth is an incredibly powerful position, a very strong executive branch.
25 Because the Commissioner of Agriculture is independently elected, agriculture
26 historically has second-tier representation in state government, because governors
27 historically have not gotten directly involved in the development of the industry. The
28 governor I work for made a decision to get involved and maintain his involvement when
29 he established the Office of Agricultural Policy, which I headed up, and then assigned to
30 me the administrative responsibilities for both the Phase II Fund and the Agriculture
31 Development Funds, and that's a key difference. Without the governor's authority, much
32 of what I'm going to describe to you probably would not come to fruition in the time
33 frame that we were able to, because when you're calling from the Governor's Office,
34 people return calls, and it made a huge difference. The Board has fiduciary responsibility
35 for all of the funds, both funds earmarked for individual counties and the funds set aside
36 for state level programs and projects.

37 All one hundred and twenty counties, regardless of the amount of money they
38 have, have a county agricultural development council created by statute, and that's the
39 same statute that created the Agriculture Development Board. That's made up of farmers,
40 two appointed by the Soil Conservation District Board, two appointed by the Farm
41 Service Agency, two appointed by the County Extension Board. Those six get together,
42 and that's written in the statute, they nominate two young farmers between the ages of
43 eighteen and forty. That comprises a hundred and twenty new leadership innovation

1 engines in every county in the Commonwealth, farmers who are directly engaged in
2 planning. Their primary responsibility, they have to be directly engaged in developing a
3 plan for the future of agriculture for their counties and reviewing proposals for the use of
4 county funds and prioritizing those proposals in the context of their county's plan. Those
5 recommendations are forwarded to the State Board, and the State Board makes the final
6 determinations of whether or not their recommendations are compatible with the intent of
7 the legislation and the funding priorities set out by our Long-Term Plan.

8 Let me talk about the Long-Term Plan. The single most important thing that
9 has happened in the Commonwealth of Kentucky in agriculture in the past five years is
10 the eighteen-month planning process that we went through to engage producers on the
11 local level in their communities in the determination of how this money was going to be
12 used. We took all one hundred and twenty county agriculture development plans, and we
13 looked for common themes, and we pulled those out, and we recorded that. We went
14 back out and held fourteen regional meetings where we invited the farm community, we
15 also invited the faith community, we invited the business community, the educational
16 community and a broad cross section of community representatives, and we asked people
17 to think across county lines. I don't know if county identity is as strong here in Virginia
18 as it is in Kentucky, but if you ask somebody where they are from in Kentucky, if they're
19 not from Louisville, they will tell you the county they are from. County identity is really
20 strong, and we had to make a concerted effort to get people to think across county lines
21 and to think about the future of agriculture in their region. We then conducted a two-day
22 summit that was facilitated by a gentleman named Ray Goldberg from the Harvard
23 Business School. In Star Wars, Ray Goldberg is the Yoda of global agribusiness. The
24 CEO's of every major agribusiness corporation make a pilgrimage every January to a
25 leadership seminar that he hosts at the Harvard Business School. We asked Ray to come
26 down and work with us in that meeting. A broad cross section of folks, farmer
27 representation and business representation, everyone who had an interest in the future of
28 rural Kentucky was represented in that two-day session.

29 We had a series of specific state-level meetings that followed up that summit
30 and looked at the priorities that we gleaned from the regional meetings and the county
31 plans. Then we took that draft document, it was way too long, and kind of like my
32 presentation this morning, we took that document back out to six regional farms and went
33 through it with people and gave them an opportunity to get their feedback and they could
34 tell us what they thought. Close to nine hundred Kentuckians participated in this
35 planning process. If there was no money, if there were no projects, I can tell you the
36 planning process did more to change the culture and the mind-set of rural Kentuckians
37 than anything that ever happened in the history of Kentucky agriculture. People had the
38 freedom to think outside of the parameters in which they were accustomed to thinking.
39 They saw their neighbors stand up and say, we used to say there's nothing that can
40 replace tobacco, but we can't think that way anymore, and we've got to start thinking
41 about what can and what it is going to take to get us there. That gave them a freedom and
42 a comfort level, and the results were mind-boggling. The priorities for our Long-Term
43 Plan came from the ground, and they came from farmers themselves. They didn't come

1 from the bureaucrat that was in charge of the process. We set up the process and gave
2 people information that was relevant to making informed decisions. The plan itself came
3 from the farmers.

4 Let me tell you about the process we went through on this community-level
5 plan. Natural resource assessments. We have three very distinct regions in Kentucky.
6 Eastern Kentucky is similar to western Virginia, the Appalachian region, characterized by
7 the extreme poverty rate, low levels of educational attainment. Central Kentucky is the
8 bluegrass, and it's the burley belt and home of our equine industry, rolling hills and
9 comparable to central Virginia. Western Kentucky is big time grain production like they
10 have in Iowa, Missouri, Illinois and Indiana, completely flat, and you would think you're
11 in the Midwest. We have an important job to do in providing the participants in the
12 planning sessions with the information they needed to make informed decisions about
13 what was workable in their particular area, what were the natural resources, and what
14 were the constraints, what did they have to work with? Where is the market that
15 Kentucky can tap into with new agricultural products? Like you all we're within a day's
16 drive of three-fourths of the U. S. population. We know there are established consumer
17 markets, and I'll talk to you about how those markets are changing in just a minute.
18 Where are our products going now, who's buying them, who's paying for them, how
19 much are they paying for them and how much we increase net farm income by moving
20 farmers up the value chain to get a bigger share of the ultimate consumer dollar?
21 Engaging key stakeholders with that needed information, facilitating community-based
22 identification, identifying potential solutions, developing near and long-term plans.

23 By statute we were mandated to develop a short-term plan to respond to the
24 immediate crisis that farmers were facing and a long-term plan to set out a future course
25 of agriculture in the Commonwealth. During the planning process we didn't stop the
26 action of the Board. Politically forces stated that we were sitting on sixty million dollars,
27 and the farm community knew that money was there, C. D., and it wasn't anybody else's,
28 and it's my money, and it's tobacco money, and you wouldn't have it if it wasn't for me.
29 That's an argument I've argued before, but I won't do it today. The fact of the matter is
30 that that was perception, and perception is reality, and that's the reality we were dealing
31 with. We couldn't hold up the Board's actions, and we had to make investments in the
32 farm economy. In the planning process we sought to leverage those investments as much
33 as we could and maximize connections on new project development with what had
34 already been done.

35 Then we set out a course for making capital investment, and I'll tell you those
36 priorities in just a second. We monitored the results based on the highest standards of
37 accountability. We, like you all, recognize that the money could be taken away at any
38 time, subject to the appropriation of the General Assembly. Although we had our
39 Governor's unwavering support and commitment and we had the support of key
40 legislators, the fiscal crisis the Commonwealth came to face over the past three years
41 created conditions where we needed to let not only the General Assembly know, general
42 public know that we were being wise stewards of those resources. We instituted the
43 highest standards of accountability that we could.

1 Yesterday, Bill, you told the Commission that you hoped they would look for
2 new ideas, and I think that's the word you used. Innovation and fresh thinking equals
3 cultural change, and cultural change is what we're talking about. My family and your
4 family have been accustomed to a system that guarantees market prices and guaranteed
5 our markets for seventy years. It's influenced every aspect of the community and how it
6 functions. Our lives revolve around the financial means to the end, and that is the
7 tobacco economy, and shaped our culture. We have a tobacco culture. Now, given the
8 market force changes that we're seeing, largely outside of our control, we're faced with
9 the notion of cultural change. In the Virginia Business article that I read from Mary
10 Cabell and I quoted Mr. Roberts, and there's a gentleman from George Mason, whose
11 name I can't remember right now, but he made the comment that changing entire regional
12 economies is like pushing a boulder uphill. You don't have a choice, and you've been
13 pushing the boulder uphill for four years. I'm going to suggest to you today that there's
14 some help out there for you to push the boulder up over the hill. It's the source of
15 innovation and fresh thinking and the source of new ideas. It's on the ground in the
16 communities that you represent and the people you represent on the Commission.
17 There's no reason you should carry the burden, Carthan and his Staff or the Governor
18 should carry the burden, for revitalizing entire regional economies by yourself. It's
19 unthinkable that you have to come up with all those solutions. What is thinkable,
20 practical and doable is harvesting those ideas from the people that you're here to serve.
21 We can't afford to think there's nothing that can replace tobacco. At the same time, we
22 know there's not a silver bullet to replace the guaranteed markets and guarantee the prices
23 for Virginia's farmers, for Kentucky's farmers, and for our rural economies.

24 Six priorities in our long-term plan, and very similar to the agricultural
25 priorities here. Marketing and market development. Before this fund took effect we
26 could sell burley tobacco and we could sell horses, and we had established marketing
27 infrastructure for those two things. We couldn't sell much else off the farm except for the
28 beef cattle that we ship out west to be finished and took the prices we could for that.
29 Some vegetable production, but for the most part we didn't have a marketing
30 infrastructure to move other products. Throughout the state the overwhelming number
31 one priority that came out of the mouths of farmers from across the state, I don't know
32 what I'm going to grow, but I know I need a market for whatever it is, and I know the
33 market is going to be different than what it was for tobacco, and we need a marketing
34 infrastructure, and we need to know where our goods need to be, and we need to know
35 what the prices are that we're going to get from those goods, and we need your help doing
36 it. That's what they said.

37 Priority number two, financing the future and improving access to capital.
38 They recognized they couldn't take on any more debt, they recognized these resources
39 were available, and they recognized across the state that it wasn't an entitlement situation.
40 While it was their money, they recognized that they didn't have a claim to it without
41 good justification for it. They asked us to create capital access programs that would
42 allow them to create new markets to make investments and to create new marketing
43 infrastructure along with the investments on the farm.

1 The third priority was financial incentives for environmental stewardship.
2 That includes the eighteen million dollar commitment to the soil erosion and water
3 quality improvement program and the farmland preservation efforts.

4 MS. WALLACE: Do you have a state program for costs that
5 addresses those independent of this fund?

6 MR. HACK: Not independent of the fund, the money comes from
7 this fund.

8 MS. WALLACE: In Virginia we do.

9 MR. HACK: Linda, let me back up. The program was established
10 independent of the fund, and the funding was always much lower than what the demand
11 for the program was.

12 MS. WALLACE: Our General Assembly allocates money for cost
13 share.

14 MR. HACK: Right, us too. They always ran way below the
15 demand. I think their annual appropriation was like a million and a half dollars
16 statewide. We put eighteen million into it the first biennium and just put eighteen million
17 dollars over the second biennium, but the demand is there.

18 Supporting local leadership, creating programs to develop local leadership,
19 supporting our local county agricultural development councils, enhancing the cooperative
20 extension service network, the fourth priority of our Long-Term Plan. Farm family
21 education and computer literacy, strengthening and improving the accessibility of
22 education programs and training programs tailored specifically for the needs of farm
23 families. Education cannot take the same shape for the farming community as it does for
24 the non-farming community. There are unique needs in the farm community relating to
25 scheduling and unique needs relating to work loads and to access. We began to learn or
26 to get a good idea of what those needs were as we talked to people across the state and
27 understood where they were coming from. I have to commend your activity on the
28 scholarship program, and that's an outstanding investment that will pay long-term
29 dividends well into the future in Southside and Southwest Virginia.

30 MR. OWEN: Have you dealt with the issue of Internet access,
31 broadband access in rural counties?

32 MR. HACK: We're just on the front end of it, and we're nowhere
33 near as far along as you all are in the some telecommunications and IT investments that
34 you've made.

35 MR. CURRIN: What's that program?

36 MR. HACK: The Center for Information Technology Enterprise.

37 MR. CURRIN: That's the Internet, we were having some
38 conversation, that was about Southwest Virginia and eastern Kentucky working with
39 them.

40 MR. HACK: All one hundred and seventy-six school districts are
41 wired, so at least in each county there's some, and all of our public libraries are wired. I
42 don't have high-speed Internet where I live, and I don't have access to it. I'm too far from
43 the phones, I don't have city water even. But we're working on it, and we're working on

1 the IT connection.

2 Program fundamentals. A couple of folks mentioned yesterday having skin in
3 the game. I can tell you from experience it's real hard to tell the tobacco farmer he's got
4 to have skin in the game when I've got sixty million dollars behind me and he's got a
5 sixty percent quota cut in front of him. That makes for some lively conversations. I had
6 several of those over the five and a half years that I was in government. That was the
7 driving value of our board and primarily the Governor. He recognized that we couldn't
8 because of our Phase II payments, he felt like the farm community was, at least their
9 short-term income needs met through the Phase II program. In the use of these funds we
10 needed to leverage them and make the impact go as far as possible. We asked farmers
11 and funding participants, they had to come up with at least fifty percent, we need to have
12 a vested interest in these projects.

13 We also required a business plan of every project that we funded. We did
14 provide technical assistance through the farm community and through our small business
15 centers through a new program that we set up called the Center for Agricultural
16 Development and Entrepreneurship. We have seen those business plans take shape.
17 Farmers are beginning to think of their operations in a business way and in ways they had
18 not in the past. Those two things are bedrock principles that contribute to the success of
19 our program.

20 What we did in approaching the use of this money, we looked at what we did
21 best and what we were world-renowned for besides bourbon. We're world renowned for
22 our burley tobacco and our horses. Our natural resource base accommodates both our
23 burley and our horses. Our soil type produces the grass, our limestone water produces
24 the strong bones, and we produce the fastest racehorses in the world. We have
25 infrastructure to sell those racehorses, the largest agricultural product or the largest farm
26 gate cash receipt product in Kentucky. That's built on the available natural resources,
27 sophisticated production and established marketing outlet and available technical
28 assistance.

29 The same thing applies to tobacco. Mr. West and I were talking last night,
30 you've got a black shank or blue mold problem, you know where you can go to get your
31 answers, but there's not that kind of help available for new farm products, or at least there
32 wasn't in Kentucky. We recognized that we had to invest on the farms to produce the
33 sophistication of our production regardless of the farm products. We had to invest in
34 marketing infrastructure to connect sellers and buyers, and we had to invest in technical
35 assistance programs to provide answers to new questions on new projects on the farm
36 market and the technical assistance. Our farmers in the past have been hung out to dry as
37 our universities have encouraged one crop or another for diversification purposes. It was
38 green peppers in the mid-'80's, and everybody and their mother got into green peppers.
39 The thing about the peppers is that if you're going to do your tobacco in August and a
40 pretty day comes up and you don't feel like doing it you can go fishing and come back the
41 next day and the tobacco is going to be fine, but if you miss that spring schedule on the
42 green peppers and you go on Wednesday and come back on Thursday, you won't have a
43 pepper crop that you can take to market. Technical assistance programs are important,

1 and it's not about creating bureaucracy, it's not about growing the size of government, it's
2 about getting existing service providers focused on new problems and it's about creating
3 a few new organizations to accommodate the efforts of farmers in new areas.

4 On farm investments, we utilized the county funds primarily for this, and what
5 we did to facilitate county council's use for application of the funds that are earmarked
6 for each county that I told you about earlier, we recognize there is a possibility of farmers
7 being treated differently, depending on what county they lived in. So we didn't have a
8 farmer in Hart County talking to his cousin from Edmondson County and finding out that
9 the Hart County cost share rate was twenty-five percent when the Edmondson County
10 cost share rate was fifty percent. We provided seven model programs that the county can
11 opt into. The first model programs that we provided were aimed at our largest existing
12 asset. The largest asset that we have that our farmers knew didn't require them to think
13 about new products or new markets, and that's their beef cattle herd. Forty-four
14 thousand beef cattle farms in Kentucky and forty-five thousand tobacco farms in
15 Kentucky, and there's a lot of crossover. The problem was that because of king tobacco
16 our producers never really thought about their beef cattle enterprises as a business
17 component of their farming operation. If the washing machine broke down they'd sell a
18 calf at the stockyards and replace the washing machine. It was not part of the overall
19 business plan. We created in concert with our Cattlemen's Association and our land grant
20 institutions, we created a systematic approach to improving the marketability and quality
21 of that beef cattle herd. It's what they knew, and we didn't ask them to step out, but we
22 wanted to maximize the value of what they had on the farm already, and we did it through
23 a genetics program that we were able to use in the Commission's investment in a pilot
24 project in Halifax and in Mecklenburg and Pittsylvania Counties. To date a little over
25 nine million dollars has been spent on a fifty/fifty basis with producers in our genetics
26 program.

27 We also committed a great deal of money to our forage program. The goal is
28 to improve net farm income through improved forage quality. We're the seventh largest
29 hay producer in the country, but our hay has suffered from the tobacco culture, as many
30 other farm products have. We're dominated by Kentucky 31 Fescue, and we know that's
31 not what animals prefer, and it's what their systems don't prefer. We've made a
32 concentrated effort, and ninety-three counties are participating in the forage improvement
33 program. This is a direct cost share assistance to the farmers on a fifty/fifty basis. There
34 are eligible expenses in these programs, and each one of them are written up, and
35 everyone understands what they can spend their money on.

36 Cattle handling and herd health, assisting producers with the purchase of
37 handling facilities for beef and dairy cattle and health practices, eighty-seven counties,
38 eight point six million dollars committed there. We've become the third largest goat state
39 in the country as a result of this government diversification, and this didn't come from the
40 bureaucracy, it came from the ground. All these model programs originated with a
41 county council, none of them came from Frankfort. As much as I'd like to say they did,
42 they did not, and they were all producer-driven, and they were all ideas that were
43 channeled through the county agricultural development. We had a tremendous interest in

1 meat goat production. We spent about thirty thousand dollars on a market study that told
2 us within a day's drive there are some very valuable meat goat markets in the growing
3 Hispanic and Muslim populations on the East Coast. Now we're behind North Carolina
4 and Texas in goat production, one point four million dollars in fifty-two counties, and
5 those are eligible expenses.

6 We have a general diversification program that supports everything from
7 vegetables to grapes that allows for the entry into niche markets on a cost sharing basis,
8 six million dollars in sixty counties.

9 Other model programs include a hay and commodity storage program and an
10 on-farm water resource improvement program and a fencing improvement program. I
11 fought tooth and nail against it, but the producers won. If we're going to talk about being
12 a serious beef cattle state we're going to have to talk about cornering part of that market
13 that we feel we have the potential to, and we've got to have adequate perimeter fencing.
14 That was a model program that came from the producers. It was not one that our board
15 readily accepted, but it was one that we had to recognize the need for it. That gives you
16 an idea of the model programs.

17 Direct cost share assistance to individuals, individual producers, a hundred and
18 five counties participating and more than fifty-five million dollars has been invested
19 through those county model programs and individual payments to farmers on a cost
20 sharing basis in those particular areas. We did the on-farm capital investment and the
21 long-term capital investment for model programs.

22 We're doing new market development with the money set aside for state
23 programs, and I'll give you an example of some of it. The largest investment we have
24 made is in a brand new ethanol production facility in Hopkinsville in the middle of our
25 grain production area and the southern most ethanol plant in the United States. It's a
26 twenty-five million gallon plant, and they'll be producing ethanol in June of this year, and
27 we feel like they're going to be very well positioned to take advantage of some of the
28 market conditions that are being produced by changes in the regulatory climate with
29 respect to other fuel additives. The Midwest has the corner on ethanol and probably the
30 northeastern part of the state. Because of our natural resource base and our geographic
31 proximity to the southeast we feel like this will be a winning project. Yesterday Bill
32 alluded to ethanol, and his point was you can't really talk about all these things if you
33 don't have the natural resource base to support. We can't talk about an ethanol plant in
34 eastern Kentucky because we don't have any corn, but our grain production area in
35 western Kentucky is comparable to any of the yields that you're going to see, corn yields
36 you're going to see in Iowa or Indiana or Illinois. Our soybean production is better. We
37 feel that's going to be, that's going to be a nine million dollar contribution to a thirty-three
38 million dollar project, a twenty-eight hundred member agricultural grain cooperative in
39 Hopkinsville impacting producers in a thirty county area. It's adding value to the raw
40 commodity, and the producers are owning it.

41 Smaller scale projects, we've got two apple orchards in Georgetown and Scott
42 County in the Bluegrass, and another fellow down in western Kentucky converted old
43 tobacco barns into state-of-the-art apple cider processing facilities. They process their

1 own cider and the cider of others and help orchard owners who are also tobacco farmers
2 and do private labeling for them.

3 This is another example of a smaller scale project. Nine hundred and fifty
4 thousand for the Little Kentucky Smokehouse, and that's part of a two point five million
5 dollar processing plant that's going to use Kentucky pork and hams that he has processed
6 for Wal-Mart and Kroger. We funded this project a little over two years ago, and he came
7 into production this year and got the plant finalized, or last year. He's been in production
8 seven months and has already surpassed his year five projections and moving a million
9 pounds of ham a month. That's where he expected to be five years from now, and that's a
10 new market. The loan in that situation is forgiven based on the quantity of Kentucky
11 hogs that he purchased for his ham products. All of the our projects are linked directly
12 back to net farm income, and it's got to have a benefit for the producer.

13 West Kentucky Growers' Cooperative is one of five new vegetable processing
14 cooperatives, and it's located in Davis County, which is in the western part of the state
15 and consists of about sixty-five growers. They've got a good contract with a larger
16 cooperative in Florida. They have a hydrocooler and state-of-the-art processing
17 equipment, and they're doing very well.

18 Other new market investments include a forty-two thousand dollar project for a
19 small group of beef cattle producers who are getting into finishing their own products and
20 marketing directly to restaurants for premium prices. This is a hundred and twenty
21 thousand in state and county funds, Tripletree Greenhouse, seventy-five thousand state
22 and county funds using tobacco greenhouses for herb production, and they're marketing
23 them at Wal-Mart. We have a huge Wal-Mart distribution facility in the southeastern part
24 of the state that handles a good deal of the produce for the southeastern U. S.

25 Development projects, and I put this one up because of the beef cattle
26 improvement project that's going on on top of reclaimed strip mine land. It's incredible to
27 stand where the top of the mountain used to be to see this big flat area where they've
28 ripped the coal from the earth and to see that now in beautiful timothy and orchard grass
29 and alfalfa and to see the cows on top of this hill in Kentucky, and it's drawn producers
30 from seventeen southeastern Kentucky counties. This is a four point one million dollar
31 cooperative for state and county funds for ornamental tree production that's put together
32 the Western Tobacco Growers' Association. Marketing infrastructure investment
33 technical assistance program. We established two two million dollar endowments, and
34 one was for the state FFA program, and one was for the state 4-H program. The proceeds
35 from those endowments support diversification projects in 4-H clubs and FFA chapters
36 across the state. We set up a center for agricultural and entrepreneur development to
37 provide development assistance to the farm community. We established the Kentucky
38 Center for Cooperative Development to assist farmers with questions about their business
39 structure. Is it right for a co-op, is it better as an LLC, or what is the right direction for
40 me to take, and how do I work through those issues? The Kentucky Beef Network is a
41 system of sixteen regional coordinators that provide direct technical assistance to
42 producers and technical assistance for those producers participating in our beef
43 improvement cost share programs.

1 We were able to leverage three point seven five million dollars from the Small
2 Business Administration working with a group called, or actually four business micro
3 lenders in four different parts of the state that provide loans and technical assistance and
4 support the folks that have diversification ideas that are not necessarily bankable through
5 conventional lenders but can be accommodated through the SBEC. Twenty-five million
6 for a farmland preservation program, ten million dollars of that is for statewide purchase
7 of agriculture conversation, and fifteen million of it matches twenty-five million from the
8 Lexington County government for a forty million PDR program in the county where
9 Lexington is, but it's also our fourth most agriculturally productive county. Everyone
10 decided to put money into it, and they don't have a reoccurring revenue source but they're
11 exploring that now in the cell phone tax that I mentioned yesterday, but taxes are a dirty
12 word as far as a lot of people are concerned.

13 New market investments totaling in state dollars in the first three years, ninety-
14 six million two hundred forty-two thousand four zero five. In state and county funds we
15 have reviewed, when I left in June we had reviewed twenty-three hundred proposals, and
16 the board had approved fourteen hundred of those. We have a hundred and twenty
17 counties, and we have seven model programs available to counties. A large part of that
18 fourteen hundred comes through the new model programs. All of those model programs
19 are locally administered and not administered on the state level and privately
20 administered. They're not done by public agencies but done through beef cattle
21 associations, county Farm Bureau chapters and soil conversation district boards, which is
22 a governmental entity, but those are locally administered. Farmers get approved or
23 turned down locally, and they gripe at their counterparts on the Ag Development Council
24 and if they get turned down we don't have to deal with that, but it's a huge step in
25 efficiency, because administrative costs are much lower than what we can do on the state
26 level.

27 MR. CURRIN: How are those programs audited?

28 MR. HACK: They have regular reporting requirements and
29 quarterly reporting requirements. We had an extension agent in one county, and we were
30 able to catch it before it got too bad, and he's looking at a significant prison term now.
31 Under the system we set up we were able to catch that, but it's under regular quarterly
32 reporting requirements and spot audits on the participants to make sure that the money is
33 not being spent on unauthorized things.

34 MR. CURRIN: Is the spot audit administered by your office?

35 MR. HACK: Done by the local administrative agency.

36 MR. MAYHEW: With the success you've enjoyed do you still feel
37 there's a chance that this money will be appropriated for other things and/or have you
38 considered securitization?

39 MR. HACK: We looked at securitization, and we didn't feel like the
40 risks were worth what we were going to give up. We recognize the risks to the industry,
41 but we think that companies operating on sixty percent margins probably are in pretty
42 good long-term shape, and those are the cigarette companies. We didn't look much at
43 securitization. With the shift in the demographics in the state from a rural legislature to

1 an urban legislature, there's always a threat to the funds. A significant step forward was
2 the commitment of our new governor from a different party than our administration who
3 said, we need to keep fifty percent in ag, we need to continue this as a long-term
4 investment as part of our culture and part of our history, and this is where we need to be.
5 He introduced it in the budget that's being considered right now, and if they pass it that
6 will be the third biennial budget that it's been included in. I think it starts to take on
7 characteristics of a permanent program at that point when you establish that consistency.

8 Virginia agriculture, it's a new day. Ned said we had a unique opportunity to
9 get results, and you won't have that opportunity again. You've already achieved a great
10 deal of results in the first four years of the operation. In agriculture you have a unique
11 opportunity to get results. From my perspective as an outsider and a member of junior
12 Commonwealth I want to give my observations on what I consider to be your assets.
13 Matt, I have to compliment you and Secretary Schewel and Governor Warner, because
14 the Governor's involvement makes all the difference in the world. If the chief executive
15 is not engaged, then you all don't have much going. Your chief executive is fully
16 engaged, as ours was, and that makes a great deal of difference. Matt talked yesterday
17 about the themes from the Governor's work, partnership with the business sector and
18 building on existing assets, fresh thinking and innovation, leveraging resources, value-
19 added markets. That level of leadership being applied to these questions is going to get
20 you a long way down the road in a very short amount of time. The Virginia Tobacco
21 Commission and the tremendous foundation you've already laid for new economic
22 growth in these communities, the Virginia Department of Agriculture and all the great
23 things you've done, Bill, are tremendous assets that are already available and up and
24 running for the farmers of the Commonwealth. The producers' associations and the
25 groups on the ground that most producers are tied directly to and that have leadership
26 resources to offer and that have fresh ideas and have new ways of thinking.

27 I'm running out of time, and I'll go real fast here. I feel like it's a new day in
28 Virginia and a new day in Kentucky. There are some market changes going on. Food
29 consumption in the U. S. I appreciate the definition of the young farmer being between
30 the ages of eighteen and forty, that's something I value more and more every day. The
31 largest consumer section in the country are the baby boomers, increasingly selective in
32 their food choices. They care about nutrition, they care about flavor, they care about
33 freshness, they care about safety, and they have money to pay for it. They're willing to
34 pay more for higher quality products. They're dubious of the current system's ability to
35 meet their needs. McDonald's and its subsidiaries, they're not buying chicken that has
36 routine or therapeutics in their products anymore. Some outfits demand that chicken
37 served in restaurants are fed on vegetarian feed. These are changes being driven by the
38 market, not changes driven necessarily by environmental concerns, but these are what
39 consumers want and what the consumers demand. ConAgri is a huge company, and
40 they've gotten rid of all of their livestock processing units. Organic foods, although it's a
41 small segment, it's the fastest growing segment in agriculture across the country.
42 Alternative marketing models have seen some growth in things like community-
43 supported agriculture and farmers' markets. Someone mentioned Whole Foods yesterday,

1 and in the September issue of Fortune magazine in the year 2002, Whole Foods is the
2 grocer with the highest profit margin, even higher than Wal-Mart. They were right
3 around three percent in their profit margin. Whole Foods is a store that caters to baby
4 boomers who have disposable income in order to be able to be more selective in food
5 choices. Changes are going on in the food market industry, because we all think every
6 day what we have to eat, but there is an obesity problem in this country that's going to
7 have some profound social impact. Poor health, disabilities in children, lack of
8 workforce preparedness as a result and increased likelihood of disabilities in old age,
9 higher probability of terminal illnesses, all that adds up to big time government spending
10 to offset some of that unless we address it on the front end. Conventional production of
11 marketing models are disconnected from the smaller production scales that are typical of
12 southern agriculture, which includes Virginia, Kentucky, North Carolina, Georgia and so
13 on. The policy challenge is to match the farmer's production and the marketing models to
14 consumer preferences creating optimum conditions.

15 Cultural changes and what it's going to take to get folks to think about where
16 their place is in the market place. I'm not going to suggest a specific agriculture
17 investment that you all can make, but I can tell you where you can find the ideas for
18 them, but I can't tell you what they are. The ideas are on the ground in the communities
19 where you're working, and the ideas are with those people. That's where the most
20 sustainable ideas are going to be, that's where the longest term impact. If you want to
21 talk about a spark, Ned, and you guys apply that money to that spark and all of a sudden
22 you've got a big flame. In order for that to happen you've got to facilitate cultural
23 changes, and you've already been doing that. In order to do that effectively you can
24 follow the model that Buddy follows when he puts his flue-cured tobacco crop in. You're
25 supposed to say, yeah, every year, Buddy. He's assessing his existing conditions. If he
26 figures out the soil is not quite right, he's got to amend it and he's got to engage his
27 community, provide that community information, capital and necessary resources. Then
28 he'll plant the seed and facilitate community determination of potential solutions and
29 plans. Finally you cultivate prosperity and develop linkages to your existing projects.
30 All of the existing investments you've made in business development infrastructure and
31 telecommunications infrastructure and technology infrastructure you made capital
32 investments and processing and marketing infrastructure and technical assistance and you
33 impose the most rigid and highest standards in accountability that you can imagine.

34 Local resources, natural resources available, human resources, productions and
35 job skills, social resources, community support mechanisms, market resources. What
36 products are people buying that's compatible with Southside and Southwest Virginia
37 agriculture? Where are they buying them, and who's already in the market, and who is
38 your competition?

39 Amending the soil, what I'm talking about there is engaging the community
40 with inclusive efforts to engage those that are most affected by this economic crisis in
41 rural tobacco states, not just the farmers. Churches are affected, school systems are
42 affected, banks are affected, extension services, health community, and they're all being
43 affected. Providing information to local folks so that they can make important

1 determinations of what they want in the future for that community. Planting the seeds,
2 identifying possible solutions, community determination of possible solutions,
3 community planning, prioritization of potential solutions, planning for success and
4 meeting the needs of potential solutions, cultivating prosperity and developing those
5 linkages, making the capital investment and monitoring the results to make sure you get
6 what you want done.

7 The changes that we're seeing in the food economy, baby boomers, health is
8 affecting the food market place, Whole Foods is the most profitable. If you want to know
9 what the northern Virginia food market is doing you go through Whole Foods, because
10 these managers have the authority in their business model to buy local products, and Wal-
11 Mart does that. Everything goes through regional distribution facilities. None of the
12 grocery chains have the authority that Whole Foods does. Finally, the obesity epidemic
13 and long- term effects, and that's something I think you need to think about over long
14 term.

15 So you guys have a choice to ignore the changes in the global food market of
16 rural communities in Virginia agriculture, and that involves environmental and economic
17 cultures, or you can choose to examine changes in the food market place and work
18 closely with Virginia farm families to determine the optimum conditions for agriculture
19 here and devise plans to create those conditions.

20 That farmer we mentioned, in 1998 he started downhill, and now I have about
21 half what I did, and I put my life savings into it, and it just went south, that's what it's all
22 about. Thank you very much for the opportunity to be here. I'm excited about what
23 you've got going, on and we're excited to have a small part in the meeting today, and I
24 look forward to talking to you from here on. I'll be happy to answer any questions.

25 MR. CURRIN: I'd just like to say that I would recommend that at
26 some point in time in the future it might be helpful to have some members of the
27 Commission have a tour of some of the examples you've talked about here today to see
28 firsthand the application of their funds and how these projects are helping to diversify the
29 economy.

30 MR. HACK: On that note, Carthan, the Keenland Race Course is
31 open in April, and it's a great time of the year to be in Kentucky, and there's a number of
32 facilities there for those of you that might have an interest.

33 MR. CURRIN: The Vice Chairman and I talked about that.

34 MR. HACK: Thank you.

35 VICE CHAIRMAN BRYANT: Thank you, Mr. Hack, and I want
36 you to know that we share the enthusiasm you have shown us this morning.

37 MR. PFOHL: I have several comments I'd like to make, and
38 through some decisions that have been made by this Committee and the Full Commission
39 in the last year, we funded twenty-eight projects which involved a little over three million
40 dollars, and we do have a track record on this as most of you are aware, of being involved
41 in providing some kind of financial assistance to agribusiness grant projects. Does that
42 track record indicate that we have set some precedents? Perhaps, but I'd argue that we
43 are not necessarily wedded to decisions to fund certain types of projects that the

1 Commission has made in the past, but the other side of that coin is, do we have some
2 experience to understand how our funding can assist some projects, and I'd say the
3 answer to that is yes. Britt and Jerry are Grant Administrators, and they monitor those
4 twenty-eight grant projects and can give you the background about the status of some of
5 those. We do have an understanding from projects that were funded in the early years of
6 the Commission in the economic development grant cycle and in the last year projects
7 that your Committee has sent recommendations to the Full Commission on.

8 Another piece in your packet is the Agribusiness guidelines that the Committee
9 reviewed and endorsed in June and sent to the Full Commission for approval last July. It
10 expresses some funding priorities at the bottom of the first page. I want to thank John-
11 Mark and our colleagues in North Carolina as well. We lifted some concepts from their
12 programs and from their marketing materials to try to capture some of the essence of
13 what the Commission might be interested in providing agribusiness funding to. That's
14 like assisting farmers with improved production techniques that result in increased
15 profitability, to increase net farm income, expanding market opportunities, finding new
16 ways to add value to agriculture products, and so forth. What we've tried to do with the
17 funding priorities is initiate some dialogue with our potential applicants so we can
18 convey to them some of the things that the Commission is interested in getting involved
19 with and get their response back about how their proposed projects may fit with
20 Commission funding priorities. We wanted to do it in a way that did not limit the
21 creativity or the sparks that are coming from localities and the regions that have needs
22 like John-Mark talked about. I think those are intentionally somewhat vague and open to
23 interpretation, but hopefully that will initiate dialogue with applicants.

24 Certainly the Long-Range Plan is another of the critical documents that we
25 hope the Agribusiness guidelines will reflect directions that are expressed in our Long-
26 Range Plan.

27 Also in the packet is scoring that we had assembled last June when we
28 presented the guidelines to you, some recognition of our friends at the Department of
29 Agriculture and with the Farm Bureau for helping us understand why we want to be
30 consistent with the Commission's existing programs and convey the same kind of
31 measures of the viability of the requests and looking at technical merit and financial
32 leveraging ability and the ability of the applicant to make the project run successfully.

33 We also wanted to recognize the fact that reviewing Agribusiness grant
34 requests is going to be a little different from looking at Economic Development grant
35 requests. Economic Development projects are generally more easily measured in terms
36 of net jobs created, and that's not necessarily going to be the case with Agribusiness
37 projects. Looking at factors like increasing farm income and getting income into the
38 tobacco region from outside markets areas, and so forth. I hope that scoring will be a
39 helpful tool as we move through the grant cycle in the coming year. If we decide to go
40 through the grant cycle I'm going to say I think that's significant. We're certainly open to
41 some discussion and input on how we need to handle our scoring. I would also tell you
42 that scoring is not the be-all and end-all. We're going to take a look at a wide array of
43 projects and be able to give some relative ranking to those. Certainly when we get

1 projects a consideration would be funding priorities expressed by the Committee and the
2 Commission. An example would be in our recent Education grant cycle we had some
3 well-crafted requests for projects that involved education for the arts. There were some
4 very diverse projects and means to make projects successful. The Staff felt that we
5 should send that Committee the requests that looked at some basic workforce skills and
6 moving the citizens in the tobacco region forward on things like GED, and particular job
7 skills as opposed to educating people about Death of a Salesman and other great cultural
8 and literary works. We're all better off understanding arts and culture. I certainly think
9 we have some urgent priorities that we have to address. That's why scoring is just one of
10 the tools. I think the dialogue we're going to have a little bit later, and we get a chance to
11 express funding priorities, will be some sort of an overlay when we go through a grant
12 cycle.

13 Ned made a comment yesterday that most of us come from the farming
14 background, and I'm probably the exception, and certainly I could use your direction
15 before we leave today on issues like timing of a grant cycle, why to do a grant cycle, and
16 due to the fact this is about one and three-quarter million dollars available in the current
17 fiscal year for Agribusiness projects. Is there a single direction or a short list of
18 directions the Committee wants to recommend to the Full Commission? Is there a single
19 direction that may not involve throwing open a grant process to anyone that wants to
20 submit something to us?

21 Secondly, is there a desire to do a grant cycle, and if so, I would suggest to you
22 that given the fact that we're still wrapping up the Education grant process right now and
23 we'll have resubmission of Education projects that will go to the Full Commission at the
24 May meeting.

25 March 1st we will also be taking Economic Development grant requests. That
26 typically has involved about a hundred requests a year for the Staff to review and then
27 send to the two Economic Development Committees, and that's targeted for the May
28 Commission meeting. I would suggest that if we are going to do an Agribusiness grant
29 cycle, the late July Commission meeting might be a good one to target for sending
30 recommendations to the Full Commission. Working back from the July Commission
31 meeting, that could then mean late June or early July a Committee meeting where you
32 folks can review the grant requests that have been submitted to us. I think the issue of
33 what would be an appropriate application date should be considered so we're not running
34 into planting seasons and so forth. Some suggestion of organizations and methods to
35 help us disseminate some information. An Agribusiness grant cycle would be helpful,
36 and some discussion about due diligence. In order for you folks to make
37 recommendations that you're comfortable with to the Full Commission we have to ask the
38 right questions in the application. We might have some explanation, the questions we
39 want to put to the applicants so that we're getting responses that help all of us make solid
40 and comfortable recommendations in the grant process. We're not asking you to do the
41 Staff's work as far as the requests, but we're asking for your input. That input may be do
42 a grant cycle, we want to go in one or two specific directions, and maybe we'll do a grant
43 cycle in July or in the spring leading up to the July Commission meeting. We'll talk

1 about that.

2 We're looking forward to Ned's involvement, and he will share his thoughts on
3 the process that we will be pursuing after I turn it over to Bill Scruggs, who will be
4 talking about due diligence and giving us an illustration of how the corporate side makes
5 decisions in Agribusiness projects in regard to due diligence and how we may be able to
6 borrow some lessons from that in our processes.

7 So, Bill, I'll turn it over to you.

8 MR. SCRUGGS: Thanks, Tim. I have a copy of the presentation
9 here, and I'll pass it around. I'd like to thank John-Mark for the comments he made. I'm
10 interested in the comments he made about opportunities, and then I'll talk about due
11 diligence, which to me a lot of people carry with it a negative. Like here it is, and he's
12 going to be the devil's advocate and shoot holes in everything, that's part of due
13 diligence. What I'd like to do is talk about looking at it from the standpoint of project
14 feasibility, resources that might help in terms of evaluating projects, and then this
15 capitalization related issue, some of this is related to things that I work with in new
16 businesses, and then maybe look at getting them started in Virginia. Some of it is playing
17 devil's advocate and poking holes in a business plan. I want to be positive about
18 agriculture and agricultural development in the state. If someone doesn't ask those
19 questions and in some cases get those things corrected in the business plans as they start
20 up, then in some cases they fail. You can ask those questions and they'll still fail, but at
21 least you can try to cover it as best you can.

22 Feasibility, you've basically got economic feasibility, and then part of that is
23 technical aspects of it, market feasibility, operational aspects come into the business and
24 then legal issues. Technical feasibility, quite often when I deal with new businesses they
25 have some research and development information and they try to do a new process or
26 new technology or new way of doing things. They have determined themselves that they
27 can make a certain product. The next thing we need is some type of external validation.
28 Is this technology accurate in what they're saying? Some of this might be high tech,
29 you've got to validate the fact that you can make this project. And then the third aspect,
30 commercial development. Have you only done this in the laboratory on a small scale,
31 can you actually take it out there and apply it in the real world and make something in an
32 economically sound manner that can be put on the market?

33 Market feasibility, let's say technically it's in place, and I've seen projects
34 where technically they can make a certain product, but is there a market for it? Within
35 that market can the product be priced to fit? You may determine that thousands of people
36 out there will buy this product, but maybe it's going to cost too much to manufacture, and
37 is it going to fit in there, what is the target?

38 Let's talk about the wine industry in Virginia, and we do have some
39 opportunities with that. There's one thing that concerns me, that is you can go to Wal-
40 Mart or go to Food Lion and buy merlot or you can buy chardonnay, you can buy jug
41 wine for ten dollars a bottle. If you look at the Virginia wines they're anywhere from
42 twelve to eighteen a bottle. Our producers, or some of them, say we can't produce it
43 cheap enough to compete with that jug wine, and it's not bad wine. Now, how are the

1 people doing in Virginia, and are they doing well, or will they be able to keep growing?
2 They target a specific market that is related to agri-tourism and sales right there at the
3 winery. A lot of them will tell you though that if they get in the market and go to Food
4 Lion, if I put it out there beside what's coming in from Australia or California, I'm
5 probably going to be in trouble. I think you'll agree with that, Matt, from what we heard.

6 MR. ERSKINE: Also targeting the high-end markets like
7 Washington, New York and high-end restaurants and high-end distributors and that
8 market that can afford it. The key thing there is that the quality has to match. If you buy
9 an eighteen-dollar bottle of wine, generally that market tends to be savvy about wine, and
10 the quality must match the price.

11 The next thing we look at is operational aspects in management, that covers
12 everything up here. We're talking about the staffing, the operation. Does the business
13 have management in place to really make things go, and do they have experience in this
14 particular type of business? Someone a few years ago wanted to produce a special type
15 of milk. This person was targeting a niche market. He met with an executive at a major
16 dairy company in the state, and he sat down and talked to that executive, and the
17 executive said regarding the management and marketing aspect, I know the market that
18 you're talking about, and it is a target market, and it's in the northeast. The people you
19 have to deal with to get into that market are people I wouldn't deal with, is what he said.
20 Some of the managing aspects of that comes into play. He knew what the target was but
21 managing to get in there was a problem.

22 Legal issues, we are covered up with regulations, and that's just a fact of life,
23 and that's the business environment we live in. Food, drug, environmental products,
24 labor regulations, you guys in the farming business know what you have to deal with.
25 Many of you deal with the migrant labor laws, property rights and production rights,
26 freedom to operate. It depends on how technical the business is, and there's local zoning
27 aspects. Many businesses go through the local zoning process, and these are things that
28 just have to be addressed.

29 Now, this is the number of agencies that you have to deal with and your
30 business may be dealing with in terms of regulatory problems. USDA, FDA, EPA, INS,
31 Health and Human Services, the IRS, the Department of Energy, the Virginia
32 Employment Commission, DEQ, our agency here, Virginia Department of Health, State
33 Corporation Commission, Virginia Department of Taxation, Metals and Energy, VGIF
34 and Department of Conservation and Recreation. VDOT is another one, and there's
35 probably some that are missing here. What I'm saying is that when you start looking at
36 various projects trying to assist with due diligence and depending on the type of project,
37 you really have to sit down and start identifying these, because you don't want that
38 business for the last to happen that all of a sudden they're putting in bricks and mortar
39 and they come to find out they need an environmental permit and it takes two years to
40 obtain, because they missed something.

41 Based on a presentation I heard a couple of years ago, and actually it was at a
42 2001 conference, and this was a process that PHARMA looks at. They look at,
43 essentially this is the type of thing where a small bio-tech company and they're looking at

1 partnering with that company to develop a project, which is the process they go through
2 with them. They're looking to evaluate the information needed to make a decision.
3 They'll look at the commercial and technical aspects and try to decide whether they
4 should buy in to this or how this fits within their organization. They're looking at what
5 are the risks and benefits and the cost benefits. They have to establish and develop a plan
6 and a budget, profile the product, sales forecast and establish a financial analysis. It's an
7 in-depth process. They set up a lead generation team, business development people, and
8 they identify potential clients that they would be interested in partnering with. In many
9 cases they are doing an initial selection. They pointed out when you have a lead
10 generation team they might spend five or ten thousand dollars just in the initial evaluation
11 process to take the process forward to the next step, but each step they take involves
12 some money for due diligence. I'm not saying you're going to have to fork out money left
13 and right, but there may be some merit in some cases in looking at some technical
14 feasibility studies on certain things, depending on the nature of the project.

15 Then, you have licensing boards for companies and licensing, and you have to
16 make another round of decisions. We can't license, they're dealing with the regulatory
17 side. After that point it goes to the due diligence team, each one of these steps is a yes/no
18 answer. The due diligence team is really where the meat of their work is done. By the
19 time it gets there it's going to involve twelve to fifteen different departments within that
20 company at the same time. They've got operational people and marketing people and
21 everyone working on it at that point. They are getting to a point now where they are
22 spending hundreds of thousands of dollars in terms of evaluating the project. Then it
23 goes to the R&D Management Committee and the Executive Committee and then to the
24 Legal and Licensing. Their whole system is set up so they don't wind up out here trying
25 to get a license and then all of a sudden, having spent ten million dollars, have to shut the
26 project down. You've just got to make sure all those aspects get taken into consideration.

27 This due diligence team has got to consider regulatory, marketing, financing,
28 licensing, patents, clinical, just to say a few. What they are essentially looking at is
29 regulatory feasibility, strategic fit, how this new technology or company fits as far as
30 what they're doing, making certain they have the rights to manufacture the product and
31 market assessment. Is the market out there, is it part of something that fits within their
32 core and competency? Is the company they are working with looking for alliance with
33 and does it have the management in place to do what they say they can do? All of that
34 bears into the economic potential. This gets into the specifics in your handout that the
35 due diligence team is conducting due diligence and preparing a preliminary plan and
36 applying the standards for internal and external projects.

37 Let me talk a few minutes about how PHARMACIA does that. There are a lot
38 of resources in Virginia and various agencies that in some cases on various projects may
39 be able to offer input, and unbiased input in some cases, on certain projects. That's the
40 whole purpose here. Looking at the Agribusiness Development Department, and you
41 heard from Bill Dickinson yesterday about our marketing group. We have a meat and
42 poultry inspection group here, and this goes into small businesses and looking at them
43 and evaluating them, and that involves usually meat processing. We have a state

1 inspection program where we go out and inspect the plants and inspect the meat and
2 make certain that it meets the quality standards, the same as USDA, but they also provide
3 a lot of consulting assistance, and we've worked with a lot of small meat processors. They
4 can look at some of these plans and assist in developing those and pinpoint some
5 problems potentially.

6 Veterinary services, planning and inspection, and there's some other programs
7 there. Virginia Tech and Virginia State Colleges of Agricultural and Life Sciences. We
8 have people involved in agricultural economy, environmental sciences, horticulture,
9 animal science, biosystems engineering, biotechnology and then the Cooperative
10 Extension. These people can provide some ideas about things they've seen work and
11 those that haven't worked. Also in some cases where they've done national work they can
12 look at what's going on with some other states in terms of agricultural programs.

13 Other resources, the Regional Small Business Development Centers. Within
14 the state of Virginia there's a number of these Small Business Development Centers
15 located around the state, and many of them are affiliated with community colleges.
16 There's a development center at Longwood, and some of the information came from Mr.
17 Copeland, who is a Certified Public Accountant and has done a lot of work with various
18 dairies in the state. He's done a lot of work in assisting people with business plans. He
19 doesn't write the business plan for people, but he assists them.

20 The Virginia Small Business Financing Authority, they have some loans
21 programs that I think you provided funding for, the Commission has provided some
22 funding for some small business loans that they're going to work with in Southside and
23 Southwest. They have a direct loan program and a GAP financing program. USDA is
24 involved in rural development, and that rural development provides loan guarantees, and
25 out of Washington they administer the value-added agricultural grants which have been in
26 place for the past two years. We've had a number of organizations that have applied and
27 have received some grants. The Farm Service Agency has the farm lending program.
28 There are groups at USDA that try to help by providing information about technical
29 assistance on the economic side of this, and they're involved with various types of
30 agricultural products.

31 Private sector resources, there's a number of private sector groups out there and
32 national and state commodity/trade organizations. Virginia Farm Bureau, they can
33 provide some input into some of the projects that you may be looking at, as well as the
34 Agribusiness Council here in the state. On the financial side you've got commercial
35 banks, Farm Credit and CoBank. CoBank is essentially similar to Farm Credit, and it
36 was set up by Congress and provides most of its loans to cooperative types of businesses.
37 They are the entity that makes loans to farmland, large agricultural outfits. They are
38 doing a lot right now in the Midwest with value-added cooperatives and a lot on the
39 bioenergy side.

40 Equity investors, this gets more into the venture capitalists and angel investors.
41 The angel investor is maybe somebody on the biotech side that has an idea for a project
42 and has some technology. An angel investor is somebody that has money and has an
43 intense interest in certain deals that maybe they can solve some problems by putting

1 capital into a project and taking a risk. A lot of times what they really want to see is
2 business develop and the product develop. They're more interested in seeing it go than
3 seeing a huge return on their investment.

4 Venture capitalists, on the other hand, they want to come in at a certain point
5 and invest the money and cash out. They like to do it ideally just before the company
6 goes public and just before they get on the stock market. They want to come in and
7 invest some money and then cash out and essentially make a huge return on their
8 investment, and that's the nature of their business. They have some people especially in a
9 higher technical nature that can offer some assistance in evaluating projects. I know
10 some of you have worked with one person in the private sector.

11 There's a lot of consultants out there in the technical field and in environmental
12 engineering. There's one thing I'll say about those technical consultants, when you talk to
13 them they look at the feasibility, and a lot of times they won't necessarily tell you if it's
14 going to be financially feasible or economically feasible. A lot of times they're not going
15 to give you the answer what you should do, either. They'll give you some scenarios, but
16 then that's something you have to make your own decision on. They don't say just yes or
17 no; that's not the way it works.

18 Financing and capitalization. I'll stop here and, Ned, whenever you want to
19 jump in feel free, or you can take over, either one. I'm going to be a little negative, and I
20 hate to do that. I'll say it because it's been told to me, I'll try to be positive, but it says
21 most new business ventures fail. I've heard as much as ninety percent. Ned, is that right?

22 MR. STEPHENSON: It's up there pretty high.

23 MR. SCRUGGS: The other thing that you may get hit with, and I've
24 been hit with especially when the Commission was first formed and the public heard
25 about it, and they knew there was an Office here of Agribusiness Development, and they
26 didn't understand some things about it, and this involved people from all over the state.
27 People would go through ten minutes of a great idea, and then it would be a great
28 opportunity to get a grant from the Tobacco Commission to get it going, and that's what
29 they would say. The fact is that I'm not aware of any grants flat out in the state of
30 Virginia. I'm not aware of them. There are some grants that can help environmental
31 aspects. There are some loan programs, and they can help jump-start a business, but it's
32 not going to address the major issues, although you might keep going until the loan runs
33 out, but eventually you can have a problem. These are some things the finance people
34 told me about, and Ned, I'm going to let you take over from here.

35 MR. STEPHENSON: Thank you, Bill, I'm going to have to say this
36 morning, John-Mark, I really enjoyed your presentation. It was almost a religious
37 experience. The concept that the idea is on the ground in our communities is very
38 powerful, and that can give a lot of spark.

39 Before I get started, if you have these little cards I passed out yesterday just
40 pass them on. If you don't have one, just raise your hand and we'll get you a new one.
41 We'll pick them up and then we'll get started here. All right.

42 The Commission is involved in the financial end of this business, and we
43 spoke yesterday about our limited or non-existent technical experience, and we are the

1 financial arm, and the concept about due diligence is probably largely on our shoulders as
2 much as anyone else. I hoped that I could say this before Anne Marie came into the
3 room, and we welcome the AG Representative, Anne Marie, pardon me, Anne Marie, for
4 this, but I was involved in a fairly substantial merger transaction, and we were late into
5 the night and around the table, and lawyers were gumming things up, and we couldn't get
6 the ball across the line, and my chairman finally looked at counsel and said, Counsel, you
7 all know how to spell risk, but you don't know how to take it. Sometimes in spite of
8 some of these hurdles, Bill, we have to take some risks at some point if we're going to
9 move forward.

10 All of the projects that come to us need funding, and every project without
11 exception has a potential ingredient, and that is money. Money really comes in two
12 forms to each project that we're involved in. The two forms that it comes in are simply
13 debt and equity. I want to talk to you for a minute about the due diligence surrounding
14 debt and equity. Debt is fairly easily understood by all of us. Most of us in our lives
15 have used debt, and we understand it pretty well. What is the central question in the debt
16 relationship? Does anyone want to venture a guess? What is on your mind if you have a
17 debt relationship with an individual or a party? How are they going to pay you back?
18 Can your debt get paid back is really the only question. Can you get paid? Most of you
19 know that the Commission has very few debt relationships, we're not in the debt business,
20 and there are other enterprises within the Commonwealth that supply that both publicly
21 and privately. We have a few things out there in the debt realm, but we're really not in
22 the debt business.

23 The other form of money that comes to enterprises is equity. Unlike debt
24 equity is not easily understood, and most people and many entrepreneurs and many
25 boardroom types have a difficult time understanding equity relationships. I want to
26 emphasize this by asking you, have you ever talked to a farmer and asked did you have a
27 good year, and he might have said, yeah, I had a pretty good year. What does he mean by
28 that? What does he mean when he said he had a good year? It's very difficult for people
29 to learn how to measure a good year, because sometimes when you've had a good year it
30 really means that he took a huge risk and he made a modest amount of money and felt
31 good, but he hasn't put a pencil to it to figure it out. When you say you've had a good
32 year a little bit better way of talking about that is, did you make money? What do we
33 mean when we say making money? That also is not easily understood, because it's
34 relative to the amount of risk you take and the amount of investment you have.

35 The Commission has this concept that we are trying to develop when we talk
36 about return on investment, and essentially the Commission is an equity investor in these
37 projects, and they are grants, I give you, but when we make a grant to an organization we
38 have created equity in that enterprise because they do not have to pay us back. That's
39 seed money and that's equity, but the Commission has the duty of wanting to be sure that
40 our investment, and when we put that equity into an enterprise that we are getting the
41 returns that we want, and returns are not often measured in return on equity or return on
42 investment, and our returns are difficult to measure. We are seeking jobs, seeking a
43 future, we are seeking tax base, wage base, these kinds of things, but nevertheless we

1 seek a return.

2 When we do our due diligence on these projects that come before us we are
3 really very much looking for the return to the Commission measured in some very
4 difficult ways that we will establish through our grading process and through our scoring
5 process. We essentially become an equity investor. Bill, you might call us an angel
6 investor by your definition, in that the angel investor comes to the table with capital
7 because the angel investor wants something to happen and is willing to put that spark in
8 place to see it happen. The angel wants to see something happen. We're really classed as
9 an angel investor.

10 In our due diligence efforts in all these things that Bill talked about, one of the
11 things we've got to ascertain with the help of some other parties is that when a project is
12 before us we know that that enterprise will face local bankers, they'll face the regulatory
13 market, they'll face all of these folks that Bill suggested. Our due diligence really
14 expands to cover whether or not putting money in this project will give us a return, and
15 that will happen only if the project managers can make all of these hurdles that Bill
16 suggested to you. If we see that they cannot make those hurdles and there are
17 insurmountable problems, we need to find a way to solve those problems or be reluctant
18 to pour our money into those projects. I know this Commission has very finite resources,
19 and the last thing we want to do is pour equity dollars into projects that don't bring us
20 fruit and don't bloom.

21 I'd kind of wrap it up with that. The due diligence process is not an exact
22 science. It is influenced by thirty-one members of the Commission who each have
23 different and unique experiences in what it is they seek to happen. The Staff can do some
24 analysis work, but in the final analysis it comes to a collective opinion from our
25 Commission as to which projects are bringing us the most return.

26 Thank you, Bill, I appreciate the time, and I think, Mr. Chairman, we'll turn it
27 back to you.

28 VICE CHAIRMAN BRYANT: Let's take a short break.

29 MR. ERSKINE: I don't want to interrupt the break, Mr. Chairman,
30 but I want to add something, because we've been talking about due diligence and talking
31 about making that return on investment. One thing that does not shine through a little bit
32 and doesn't necessarily shine through on the grant scoring sheet or on the PowerPoint is
33 the importance of people involved in projects, management teams and project leadership.
34 To the extent that, at least in my opinion, we can emphasize that, any project that's going
35 to be successful has to have leadership behind it, and to the extent that we can drill down
36 on it and the human capital and the leadership component of these projects, I think that's
37 a key component. I think the Commission has had some experience with what looked
38 like very promising science-backed but at the end of the day the management team was
39 not there. The talent to make that idea and make it a reality and make something that will
40 impact Southside and Southwest and the state really, at the end of the day there was not a
41 talented and capable management team to take it to the next level.

42 Can a topflight management team or a leader take a poor project forward, I
43 know that reasonable people can disagree on that, but a very good project idea can fail

1 miserably for lack of leadership. I just want to say let's make sure that we drill down on
2 the people component side of things that we look at.

3 VICE CHAIRMAN BRYANT: Thank you, Matt. Are there any
4 other comments?

5 MR. OWEN: I think the discipline of the due diligence process is
6 important, not only for our determination about the value of projects, but also the person
7 that's coming forward with that project. Maybe they have some very good ideas but they
8 don't get them fleshed out, and that they need to develop a business plan and see things
9 through. I think our due diligence can help sort all of this out. Maybe they'll see some of
10 the flaws and drop it themselves or go back and reflect on it and make it a better project.
11 I don't think it's just the fact that we're going to sit here and be judges, but I think it's an
12 active process that can help the applicant, refining and re-defining a project so that at the
13 end of the day when it comes to a decision it's the best project that can be put forward so
14 it's a viable business plan, if we decide to fund it.

15 MR. SCRUGGS: That's one of the things that the business center,
16 that's one of their jobs. With the clients we work with they can go in there, and a lot of
17 times they'll have a business plan or an outline. Our job as I see it is to play devil's
18 advocate and try to help them refine it. Ideally in those cases they may be going to the
19 bank and trying to get financing. If they don't go to the bank they might go to some other
20 investor to try to get financing. It's better if they have that pretty much completed at that
21 time. I think you're right, maybe you can help define that a little bit.

22 VICE CHAIRMAN BRYANT: Any other comments? Then we'll
23 take a break.

24
25 NOTE: A break is taken, whereupon, the meeting
26 continues, viz:

27
28 VICE CHAIRMAN BRYANT: We're back, I'll reconvene the
29 meeting.

30 MR. HACK: All right, I'm not going to do all the talking in this,
31 you all are going to do it. I'm going to utilize a part of what we do at our firm, it is
32 organizational development and group facilitation, and I'm going to utilize the facilitation
33 technique that some of you maybe familiar with, but what it's going to produce for you
34 after everything you have heard yesterday and today, it's going to produce for you a
35 general consensus on the directions that you want to take the Agricultural Business
36 Committee in particular with respect to the Commission. the way we're going to do this
37 is that I'm going to facilitate your discussion. The Chairman has asked that everyone, not
38 just Commission members, but everyone participate in the discussion, and we're going to
39 answer one question. Everybody is going to contribute, and we're going to go around the
40 room, and everybody is going to contribute their answer to one question, and I left a word
41 out, and I think you'll get the drift. We'll put it up on the screen. The question is, what's
42 the most important thing that the Agribusiness Committee can do to facilitate agricultural
43 development in Southside and Southwest Virginia? What's the most important thing that

1 the Agribusiness Committee can do to facilitate agricultural development in Southside
2 and Southwest Virginia? The way this is going to work is that we're going to go around
3 the room until we exhaust all the ideas. We're not going to discuss anyone's ideas, we're
4 not going to judge anyone's ideas, we'll lay all the ideas on the table for answers to this
5 question. What's the most important thing the Agribusiness Committee can do to
6 facilitate agricultural development in Southside and Southwest Virginia? Once we
7 exhaust those ideas we're going to go back over that list, and we're going to group items
8 that are alike. Then we'll have a list, and based on the times I've used this technique, I'm
9 going to guess we're going to have a list of anywhere from ten to twelve items. I'm going
10 to ask you to use a particular method that involves your post-it notes of ranking those
11 items. What this technique does is that it provides everyone in the room an equal voice,
12 and it requires everyone in the room to participate. What you have at the end is a list of
13 agreed-upon democratically constructed priorities for next steps, or the beginning of a
14 game plan for how you want to move the Agribusiness Committee forward. Are there any
15 questions about what we're going to do? The first thing we're going to do is basically
16 brainstorm, and I hate to use that term. If you have a question about an item you're free
17 to ask the person who presented the item. At this point we're not judging and we're not
18 discussing, but we want everybody's contribution to the answer for this question. What's
19 the most important thing the Agribusiness Committee can do to facilitate agricultural
20 development in Southside and Southwest Virginia? Mr. Owen, can we start with you?

21 MR. OWEN: I guess in a word I would say advocacy. This
22 Committee and the budgetary process doesn't have enough money in our line item
23 compared to the kinds of money you pointed out that was being spent on agribusiness in
24 Kentucky to have much of a financial impact. I think advocacy meaning both and taking
25 worthwhile projects to the Committee and doing due diligence and the background
26 research, refinement, that we're talking about here and taking them to the Full
27 Commission or to another Committee within the Commission like Special Projects or
28 Economic Development to get funding for those worthy projects. Also to be an advocate
29 downstream to the communities that we serve, that we are in business for agriculture or
30 open for business for agriculture, and find a way more than perhaps we have at this point
31 using Farm Bureaus or county agencies to get the idea downstream. In the business
32 entrepreneurship area, talking about going downstream for local Chambers to get ideas
33 and find parallels in the agriculture community to get ideas that can blossom up.

34 MR. HACK: Advocacy to the Commission for worthy projects and
35 advocacy within agricultural communities, is that a fair way to sum that up?

36 MR. OWEN: Yes.

37 MR. HACK: Mr. Jenkins?

38 MR. JENKINS: You stole my thunder. I won't express it as
39 elaborately, but certainly the same thing. I don't care how good a project you've got, you
40 can do all the due diligence you want to; if the rest of the Commission or the public in
41 general doesn't think it's worthy, you're not going to get anywhere. Advocacy to me
42 might not be a strong enough word, but I would think we need to have some sort of way
43 to convince or sell the idea that agriculture has a value in this area, because local people,

1 a lot of them aren't interested in agriculture, and there's a lot more glory in some of these
2 other projects that come along. Down where I am if you get a shell building you could
3 get re-elected to two terms.

4 MR. HACK: Mr. West?

5 MR. WEST: I think what's been said is very important, and maybe
6 to further that a little bit, to educate at the local level the importance of agriculture,
7 because it seems to take a back seat, in our area anyway, over other economic
8 development methods.

9 MR. HACK: All right. Commissioner?

10 COMMISSIONER COURTER: Assess regional strengths as it
11 relates to agriculture. I think we all know what we have out there, but I don't know that
12 we acknowledge farms and their production history much anymore.

13 MR. HACK: Mr. Chairman?

14 VICE CHAIRMAN BRYANT: I think we have to educate our basic
15 constituents, which are the farmers, because if we bring a project forward just like this
16 value beef initiative, we have certain requirements, and education is going to be very
17 fundamental in making anything possible and successful.

18 MR. HACK: Okay. Educate farmers on all of the Commission's
19 work?

20 VICE CHAIRMAN BRYANT: I can't say all of the Commission's
21 work, but where there are changes, just like when you talk about cattle. The farmer looks
22 at that cattle as something that's an aside and it was not a major business. We need to
23 educate him on that priority, and when we have the requirements of quality issues and
24 certifications, education has to come forward.

25 MR. HACK: On new opportunities for them and the requirements
26 that go along with those new opportunities?

27 VICE CHAIRMAN BRYANT: Yes.

28 MR. HACK: Okay. I'm going to go to the Commission members
29 first, and then I'm going to come back to everybody else.

30 MR. MAYHEW: Clarence mentioned one I have, but I have another
31 one here. Promote the success story and if something is working well let other people
32 know about it.

33 MR. HACK: I've got all the Commission members. Let's start here.

34 MR. GLASS: Revolve, rotate and spread the wealth.

35 MR. HACK: Would you like to elaborate on that a little bit?

36 MR. GLASS: I'd love to. I'm hearing all the Commission members
37 say that we need to act, and I think that's true, you need to take risks. Instead of requiring
38 the project in front of the Committee and then they advocate it to the Commission for
39 funding, maybe the project does not need to come up with their part of the money to
40 jump-start the project, but once the project has been evaluated, to get paid back, Ned, and
41 then the money is revolved and rotated, spread the wealth. Does that make sense?

42 MR. HACK: Yes.

43 MR. GLASS: Don't give the money away, make it come back in,

1 you've got more to do with it.

2 MR. HACK: All right. Mary Cabell?

3 MARY CABELL SHERROD: Actually, what I was thinking about
4 was what Mr. Mayhew was talking about, not only promoting success stories but
5 promoting what resources are available.

6 MR. SCRUGGS: What I'm talking about here is agribusiness, it
7 goes back to what Deputy Secretary Erskine said in terms of management, assisting with
8 the development of farmers and agribusiness people in the Southside and Southwest in
9 terms of helping them better understand the skills necessary to develop new business.
10 Value-added, I guess, maybe a management aspect of it.

11 MR. HACK: All right. Jerry?

12 MR. FOUSE: You make a compelling argument for the value of
13 planning, so I'm going with a local planning concept. We can learn a lot from going
14 through a local planning process with the agricultural community, and that has a lot to do
15 with the tobacco counties.

16 UNIDENTIFIED: I go back to your presentation this morning, and
17 I think you've got certain agriculture out there, but it's not tobacco. That's a primary need
18 in the beef cattle project with the sustainability of the existing agriculture enterprises as a
19 starting point.

20 MR. HACK: It's not so much new ideas as opposed to showing up
21 the value of what's there now.

22 UNIDENTIFIED: If they don't have sustainability you don't know
23 if it'll be long-term.

24 MR. HACK: All right. Britt?

25 MS. NELSON: Kind of thinking of what Jerry said and Mary
26 Cabell said, to take what Mary Cabell said, finding other resources and local planning
27 process and combining it together. I was thinking how we had an Economic
28 Development Summit, and that was a chance to explore opportunities and learn about
29 existing resources and have the same thing, but along agribusiness lines.

30 MR. HACK: An agricultural development summit, is that the idea?

31 MS. NELSON: Yes, taking their ideas and putting them all together.

32 MR. HACK: All right. Linda?

33 MS. WALLACE: I'll reiterate all those ideas, I guess sort of along
34 the lines that Britt and Jerry mentioned and Mary Cabell was saying. I think we need
35 more local buy-in from producers, and I don't know how you get it, but I think as an ag
36 development director I'm certainly more in touch with the agricultural community and
37 grower and producer associations than any industrial development authority or Economic
38 Development person is. I don't know how you get more of me out there or more
39 positions like mine. I don't think you're going to affect any change in the local ag
40 economy unless you have buy-in by the producers.

41 MR. HACK: We don't have to worry about how we're going to do it
42 right now. The question on the table is, what is the most important thing the Agribusiness
43 Committee can do to facilitate agricultural development in Southside and Southwest

1 Virginia? We won't require you to answer it right now. I'll go to the Deputy Attorney
2 General.

3 MS. CUSHMAC: I'm here to observe.

4 MR. HACK: Just make sure it's legal. We want to get all the
5 resources in the room to make sure it's legal.

6 MS. CUSHMAC: Make sure it's legal.

7 MR. HACK: All right, Martha?

8 MS. MOORE: Develop a couple of core ideas and a strategic plan
9 and focus resources toward the ideas, because you have limited resources.

10 MR. HACK: Develop core ideas and focus on the resources and
11 core ideas. Ned?

12 MR. STEPHENSON: Risk abatement for willing entrepreneurs.
13 I'm thinking about some tools we can use with the limited resources to reduce the risk
14 that the entrepreneur faces when they are plowing new ground. If we can absorb some of
15 the risk to induce him to take that step and go ahead and try it.

16 MR. HACK: Sort of pushing him off the cliff with a parachute.

17 MR. PFOHL: I would say identify unmet needs and opportunities.
18 Look around and see what is not being served by existing programs and organizations,
19 and then to piggyback on Martha's thought and identify a short list of priorities.

20 MR. HACK: Identify unmet needs and opportunities. I think
21 everyone has had a chance to contribute one time, I believe. Mr. Currin?

22 MR. CURRIN: I don't know what I can add to what is already on
23 the board. We have two land grant universities, one we have a strong connection to and
24 the other one probably some opportunities there, be more engaged with those resources.
25 Using those resources maybe there's an opportunity to leverage our money into some
26 agricultural oriented foundation money to add to our resources.

27 MR. HACK: All right, we've gone around once. Mr. Owen, do you
28 have anything you want to add?

29 MR. OWEN: I think what we need to do, you mentioned the green
30 peppers in Kentucky, we have to have the discipline to avoid the flavor-of-the-month
31 kind of projects. If everybody wants beef cattle, and I'm not making a negative judgment
32 with that example, if Kentucky, Tennessee and North Carolina is going to do it, the beef
33 price will drop to thirty cents a pound maybe. Be sure we're evaluating the end market,
34 the end user, supply and demand is the effective global trade policies. The wine industry
35 was mentioned, and we're under a big time attack in the wine industry from Australia.
36 The smart guys in the wine business are already buying vineyards and wineries down
37 there to prepare for it. Before we promote wine too much we need to know what the new
38 market place is going to look like, more open trade.

39 MR. HACK: You're talking about a comprehensive evaluation that
40 takes in the flavor-of-the-month, as you put it. Mr. Jenkins, anything you want to add?

41 MR. JENKINS: If you can solve those problems we'll be all right.

42 MR. HACK: Mr. West?

43 MR. WEST: A long-range plan, and go along with what Mr. Owen

1 was saying that before you do anything you need a plan.
2 MR. HACK: Commissioner?
3 COMMISSIONER COURTER: Continually encourage regional
4 cooperation.
5 MR. HACK: Mr. Chairman, anything you want to add?
6 VICE CHAIRMAN BRYANT: No.
7 MR. HACK: Mr. Mayhew?
8 MR. MAYHEW: It kind of parallels what's already been said. I was
9 wondering maybe there's some way we could, and this might not be the right term, but
10 advertise some of the sources of help and resources so that some of these would-be
11 entrepreneurs instead of applying for help from the Commission would have access to
12 some of the things we're talking about this morning, access to those resources,
13 information, help and guidance.
14 MR. HACK: Like those small business development centers,
15 Tobacco Commission Staff in Southside and Southwest.
16 MR. MAYHEW: Who to call, where to go for information and how
17 to get there.
18 MR. STEPHENSON: I might want some criticism from some folks
19 in the room who are closer to this than I am, but it appears to me that the grass roots
20 mind-set development. We're not only overcoming an economic problem but the human
21 mind-set for folks that have been steeped in a culture for a very long time, and we've got
22 to help them see some of the things that we see, like maybe that's already occurred, mind-
23 set development.
24 MR. PFOHL: Consider vehicles other than an open application
25 process, a delivery vehicle.
26 MR. FOUSE: Let me speak to that for a minute if I might. After the
27 Education round there were a number of people that I heard from, why don't you do this
28 more like the foundations where you have an open round that calls for proposals, and it's
29 a two or three page proposal, and then if you like it you come back to us and we develop
30 the proposal a little further. If you don't like it you tell us to team with other universities
31 or whatever at that pre-proposal stage. Don't have us do the whole thing, show up and
32 then get wet.
33 MR. HACK: All right. Martha?
34 MS. MOORE: I can concur with their line of thinking, because
35 that's some of the problems I've seen with some of the ways and the methods that the
36 Commission has focused on pure reaction. Any type of focus or long-term, but also
37 understanding the political nature is, you probably need some immediate project and
38 long-term projects. You need to identify strategic planning or whatever and identify
39 immediate things that you get some bang for your buck and some longer term more
40 visionary projects.
41 MR. CURRIN: Martha, has the Farm Bureau done, have you done
42 short-term or long-term future agricultural uses or --
43 MS. MOORE: We've done a couple of studies, and in fact the

1 Governor's going to be working on unveiling doubling net farm receipts, that's probably
2 going to come closer than anything. I think the idea of involving Virginia Tech and
3 Virginia State, you've got new leadership at Virginia Tech, and you've got a new Dean
4 that brings in a lot of ideas. I've already heard some of the ideas. How can you take
5 these ideas and focus them on working in cooperation with the Advanced Learning
6 Institute? Do we understand enough about what that mission is and how they can build
7 off of it with the limited resources, with the Southern Piedmont or the Research Station at
8 Glade Springs? How can we take these things with a longer term vision in mind and
9 move towards capitalizing on some of those grants and use the Tobacco Commission
10 money to leverage those grants from other sources, because the reality is there's going to
11 be limited resources, but if you can leverage it then you get double bang for your buck.
12 Hopefully we'll get some funding from the General Assembly on some of the high value
13 research projects. This group never knew or doesn't know what the projects are. I think
14 there's a lot of development with Virginia State, and opening that door to see what they're
15 doing and asking them to come in and partner and have the two universities partner
16 together, then I think we can create some longer term vision, that's what research is for
17 the long term, but then look for some immediate things as well.

18 MR. HACK: All right. Linda?

19 MS. WALLACE: I don't know how to say it, but I feel like
20 agriculture is a different critter, if you will, than more traditional Economic Development.
21 Agriculture is not so much bricks and mortar kind of things. It's very frustrating for me
22 sometimes to have our ag projects subjected to the same scrutiny as the traditional
23 Economic Development arenas.

24 MR. HACK: There's not big jobs created.

25 MS. WALLACE: Right. I have people ask me if you do this
26 particular project how many jobs will it create, and I don't know that you can hold
27 agricultural projects to the same standard that you can for the more traditional
28 development strategies. I don't know how you change it, and that may go back to the
29 advocate and education piece. I don't know how you write that, John-Mark.

30 MR. FOUSE: When you talk to these thinkers like Dr. Purcell at
31 Virginia Tech, he'll tell you you can't measure agricultural projects by the same standard
32 and rule that you measure traditional Economic Development projects. He gives you this
33 little handout and talks about agriculture and adding value to beef cattle, it's a different
34 way of thinking.

35 MS. WALLACE: I don't think the majority of the commissioners
36 understand that.

37 MR. PFOHL: What are the measurable outcomes?

38 MR. HACK: Recognizing the different nature of ag products for
39 evaluation purposes.

40 MS. WALLACE: That's it, pretty much.

41 MR. SCRUGGS: What I was going to say, if you're looking at a
42 company that is able to increase the wages to seven fifty an hour up to twelve, essentially
43 what you're doing is you're increasing the wealth income of the people already involved

1 in this activity with some projects versus new jobs. That might be the measuring stick.

2 MS. WALLACE: Tim, you were at that meeting in Farmville about
3 two years ago. One of our producers said we run our farms as a business, and we don't
4 think of it as a business entity, but farmers are accountants and bankers. Halifax County
5 has nine hundred and forty businesses, I see it as nine hundred and forty individual
6 businesses in that county. Unfortunately we don't perceive of them I guess as a business.
7 They're in it for the bottom line just like every other business.

8 MR. HACK: Let me repeat that we don't have to worry right now
9 about how you're going to do any of this. What we're worried about right now is the
10 what. The how, the when and the who are the follow-up steps that you're going to have
11 to take once the what is identified. The what here, as Linda pointed out, recognizing the
12 different nature of agricultural development funds for evaluation purposes.

13 UNIDENTIFIED: Just to go back to some of Martha's comments
14 and Carthan's. Those are some focal points pertaining to agriculture and transition, and
15 you have the Governor's Committee on that. We have some areas that we think would
16 work pretty good in the future and now. Where we partnered with VDACS, universities
17 and local producers we should evaluate what's already been done with various groups and
18 make sure everybody isn't going a different way, Farm Bureau groups. To evaluate what
19 we've already got and make sure we're coordinated as far as grants and having people
20 coming in and wanting X amount of money for grants and for projects. I think these are
21 areas we need to address for the future and present. Is anybody interested in partnering
22 with the Commission to see these things go forward?

23 MR. HACK: Basically you want to survey and evaluate all the
24 groups that have a stake in the process and find out what they've done?

25 UNIDENTIFIED: I think you need to identify the stake holders.

26 MR. CURRIN: Any discussion on our federal partners, USDA?

27 UNIDENTIFIED: We found that a lot of public monies go to the
28 Midwest. You've got to apply for the money.

29 MR. CURRIN: We're going to have a meeting, as I discussed with
30 the Secretary, where all agency heads both federal and state so we can basically look at
31 where these monies go. It's a question of coordinating, and agriculture is certainly part of
32 the discussion. We've got federal resources, and we should use them.

33 MS. WALLACE: A lot of our cost-share dollars, both state and
34 federal, the lion's share of federal and state dollars goes to the Chesapeake Bay
35 Watershed. The majority of Southside counties do drain to the bay, however, there is a
36 whole region of southern rivers. Albemarle Sound has the same pollution problem that
37 the bay does, we just don't hear about it. I'd like to see the southern rivers have the same
38 opportunity at some of that federal and state money that has historically gone to the bay
39 region. I'm not discounting the need to do anything in the bay, but it's aggravating to see
40 agricultural producers in the southern rivers not afforded the same opportunity as those in
41 the bay, and it's political.

42 MR. HACK: Mary Cabell, anything to add? Britt, do you have
43 anything to add?

1 MS. NELSON: I guess fostering relationships. I know from
2 farmers themselves, and just in the last month I've gotten two calls from two different
3 interested individuals in winery. If there's information that could be shared to those two,
4 I'm not familiar, and I don't know who else is but maybe get these two people together to
5 share that information, and then the Commission can study how to get that information
6 and find out. Fostering a relationship among the farmers themselves by partaking into a
7 new area or expanding.

8 MR. HACK: Connect entrepreneurs with like interest and the
9 resources to pursue those interests, is that a fair way to say it?

10 MS. NELSON: Yes.

11 MR. CURRIN: That's something that needs to be done.

12 MR. MAYHEW: Speaking of wine, I happen to know on a casual
13 basis a couple of brothers that live about twenty miles from my place, and I've been
14 invited there. They started out with four acres, and they expanded it to eight acres, and
15 they're very happy with the success they are having. It's a small scale, but they've done
16 exceptionally well. After three years they were producing. From talking to them a
17 couple of times they seemed to tap into the, like a group of Virginia vendors, a wine
18 group in Virginia according to these guys, they had a lot of helpful ideas and suggestions
19 and experience. Once they got tapped into that, plus the winery that was buying the
20 grapes, they told them what kind of grapes they wanted and the content and all the
21 technical aspects. Then there was a group, and I don't know how many there were, but
22 they let it be known the information is out there, and they were very helpful. Rather than
23 being jealous of competition, at least at this stage they seem to be cooperating with each
24 other. They were the new guy on the block, and they went to them for help, and they
25 gave it to them. It comes back to the fact that information is available to new
26 entrepreneurs or people thinking about new ideas. If there's some way that there's readily
27 available access to information, specifically what they needed, it seems to me this would
28 really move things along.

29 MR. GLASS: I'm going to piggyback on Commissioner Courter's
30 ideas, strength in regional cooperation and identify the needs. The idea to create recycle
31 and partnerships, create the idea or create the agribusiness that the locality wants, then
32 recycle the existing resources. An example would be the vacant Winn Dixie's or Kroger
33 stores or restaurants that have commercial kitchens and coolers, et cetera. Seek out
34 clients to come in and do a commercial kitchen or food processing and seek out the
35 partnerships such as a grocery store, warehouse or distribution center within the region to
36 be sure that this project would be successful, the grocery store's own deli brand for
37 example.

38 MS. MOORE: Understanding existing resources. We were trying to
39 get funding for Savor Virginia and came out of net farm receipts, which is trying to work
40 with people producing projects. Taking Tobacco Commission dollars and trying to focus
41 those. Giving funding to that specific program in that region. Taking some dollars and
42 target it toward getting a group of people together to do some domestic trade missions or
43 whatever. Putting some resources, and it's I know very limited dollars, targeting it in

1 those two particular regions. I think it's been proven in what we saw in our analysis that
2 these are proven results for people.

3 MR. HACK: does that relate to what you said earlier with respect to
4 --

5 MS. MOORE: Immediate long-term.

6 MR. HACK: Yes.

7 MS. MOORE: That's something more immediate that you can do.
8 There's a lot of growers already in Southwest and Southside participating in Home
9 Grown, but is there an idea that would work to take through Savor Virginia and move
10 forward?

11 MR. HACK: Do you think that's new, or do you want to add it?

12 MS. MOORE: It's probably there, just saying it a different way.

13 MR. HACK: In the interest of time we have to move on, but I'm
14 going to accept the facilitator's challenge and ask the Attorney General one more time,
15 are you a consumer here?

16 MS. CUSHMAC: I live in Richmond.

17 MR. HACK: From the perspective of a consumer, and stepping
18 away from the Attorney General's Office, what would you contribute as an answer to that
19 question, what is the most important thing the Agribusiness Committee can do to
20 facilitate agriculture in Southwest and Southside?

21 MS. CUSHMAC: I'm not sure I understand your question.

22 MR. HACK: Stepping away from your role in the AG's Office with
23 the Commission, just as a person who eats, the reason for me asking it that way is
24 because we've got a lot of, we've got the perspective from the Commission Staff and the
25 perspective of the producers, and they've been very productive, but I think we could
26 benefit from your perspective.

27 MR. CURRIN: Do you look to see when you buy whether you're
28 buying Virginia products?

29 MS. CUSHMAC: I'm an urban consumer, and I don't necessarily
30 know all the resources of Southside or Southwest. What I've learned comes from my
31 capacity as counsel for the Commission. I would echo what Mr. Owen said in his
32 comments about avoiding the flavor-of-the-month as very important to keep in mind.

33 MR. HACK: Mr. Chairman, do you have anything to add?

34 VICE CHAIRMAN BRYANT: I think we've got enough here,
35 you've done your due diligence.

36 MR. HACK: Mr. Commissioner, anything to add?

37 COMMISSIONER COURTER: No.

38 MR. HACK: Mr. Owen?

39 MR. OWEN: No.

40 MR. HACK: Mr. Jenkins?

41 MR. JENKINS: No.

42 MR. HACK: Mr. West?

43 MR. WEST: No.

1 MR. HACK: Mr. Mayhew?

2 MR. MAYHEW: No.

3 MR. HACK: Ms. Wallace?

4 MS. WALLACE: One more thing, ag preservation. Be it in the
5 form of a PDR, an easement program or farmland preservation. It's not farmland without
6 farmers. Preserving land is one thing, but I'd like to see it remain in productive
7 agriculture.

8 MR. HACK: That's the easy part, now we'll get to the hard part.
9 We'll go over these lists, and we're going to group like items. Leverage long-term
10 Commission investment for near-term project development and recognize, and if you
11 contributed any of these and they're not phrased as you would prefer them to be phrased,
12 speak up. Recognize the different nature of ag development projects for evaluation
13 purposes. Evaluate past actions by all stakeholders and groups, identify stake holders.
14 Advertise sources of help from entrepreneurs. Grass roots mind-set development.
15 Consider service delivery options other than an open application process. Solicit pre-
16 proposals. Identify immediate projects and long-term projects. Tap resources at Virginia
17 Tech and Virginia State. Have the discipline to avoid the flavor-of-the-month, properly
18 evaluate on a global basis. My use of the word global there is the same way we use the
19 global in our company. It's not a geographic designation, but it's an approach, it's a
20 comprehensive or solicited approach. Long-range plan. Continue to encourage regional
21 cooperation. Explore federal resources, connect entrepreneurs with like interest and
22 resources and support interests. Create idea, recycle available resources and seek
23 partnerships for success. Educate urban consumers, make sure it's legal, they're just
24 posted right next to each other. Develop core ideas, focus limited resources on core
25 ideas. Risk abatement for willing entrepreneurs. Identify unmet needs and opportunities,
26 support farmland preservation, entrepreneur development, local planning process, ensure
27 sustainability of existing agricultural enterprises, an agricultural development summit,
28 generate more local buy-in from producers, assess regional strengths as it relates to
29 agriculture, educate farmers on new opportunities and requirements, promote success
30 stories, revolve, rotate and spread the wealth, promote available resources, advocacy to
31 the Commission for worthy projects, advocacy within ag communities, convince others
32 of the value of agriculture, educate at the local level the importance of ag.

33 The question is, what's the single most important thing that the Agribusiness
34 Committee can do to promote agricultural development or to facilitate agricultural
35 development in Southside and Southwest Virginia?

36 Now, you're not going to be able to do all of that. The task now for the next
37 thirty minutes is to identify the five most important things up there, and before we do that
38 we need to group, and I have a technique that is going to allow us to do this very quickly.

39 Before we get there we need to group like items. I just read over the list thinking about
40 the answer to the question, what's the most important thing that the Agribusiness
41 Committee can do to facilitate agricultural development in Southside and Southwest
42 Virginia. Can you help me eliminate any duplication you might see?

43 MR. PFOHL: I think there's a cluster of education-related thoughts.

1 Educate producers and consumers, local residents about the importance of agriculture.
2 Same thing with entrepreneurs.
3 MS. MOORE: Educate consumers and producers and the general
4 public.
5 MR. HACK: I understand the common theme is education, but
6 when you think about the answer to the question it seems to me that those are different
7 tasks.
8 MS. MOORE: One is education like marketing education, and then
9 one is education, general education of resources and connecting people. The two I put
10 together were tap the resources at Virginia Tech and Virginia State and evaluate actions of
11 the stake holders. You're trying to figure out what are your existing resources. You could
12 put federal resources in with that as well. Identify all external resources.
13 MR. MAYHEW: Make available those resources for identification.
14 MR. HACK: We'll probably get this list down to, there's about
15 thirty items up there, or forty or so. We'll get it down to thirty, actually, and then down to
16 five. Identify and evaluate all available resources.
17 MS. MOORE: Evaluate --
18 MS. WALLACE: It's easier there.
19 MS. MOORE: You can connect those two.
20 MR. HACK: That was Britt's, does that stand alone, connect
21 entrepreneurs with like interest and resources, support interests?
22 MS. NELSON: If you're educating entrepreneurs that would be
23 appropriate.
24 MR. SCRUGGS: Entrepreneur assistance, you might put that in
25 there, risk abatement for entrepreneurs could be with that. Entrepreneurs, like interests
26 and resources to support.
27 MR. HACK: Entrepreneur assistance. Bill, you said entrepreneur
28 development, would that go there?
29 MR. SCRUGGS: That would go there, then risk abatement for
30 entrepreneurs.
31 MR. HACK: Ned, does that fit in?
32 MR. STEPHENSON: Yes.
33 MR. SCRUGGS: Over here advertise sources to help entrepreneurs.
34 MR. HACK: I think that was Mr. Mayhew's, does that fit in there?
35 MR. MAYHEW: There or number two, educate entrepreneurs.
36 MR. PFOHL: What's the difference in educate entrepreneurs and
37 entrepreneur assistance?
38 MR. HACK: There might not be any.
39 MR. MAYHEW: How about educate and assist entrepreneurs, take
40 that one out?
41 MR. HACK: Okay, we're not worried about the how or the who.
42 MR. MAYHEW: Then take that one out.
43 MS. MOORE: You had long-range planning, strategic development.

1 MR. MAYHEW: Federal resources should not be left out.

2 MR. HACK: That's a pretty distinct item.

3 MS. WALLACE: Educate farmers on new opportunities or
4 requirements, would that fit in there?

5 MR. HACK: That was C. D.'s, and we're going to take some liberty
6 and put that one in with educate and assist entrepreneurs, everybody okay with that? Let
7 me read over the list again. Leverage long-term Commission investments for near-term
8 project development. Recognize the different nature of ag development projects for
9 evaluation purposes. Identify stakeholders, grass roots mind-set development. Consider
10 service delivery options other than the open application process. Solicit pre-proposals,
11 identify immediate projects and long-term projects.

12 MS. MOORE: I think that one could fit in there, federal.

13 MS. NELSON: In addition to identifying and evaluating the
14 resources, and I guess that takes in also the collaboration of the resources to streamline it.

15 MS. MOORE: That would be good. Identify, evaluate and
16 collaborate.

17 MS. WALLACE: Educate at the local level the importance of ag.

18 MR. WEST: I think that was mine. I had a little something different
19 in mind, politically.

20 MR. HACK: We were talking last night about how ag is considered
21 in local Economic Development circles, for example.

22 MR. WEST: I think you've got to educate the general public the
23 importance of the importance of it to get the right thing done politically.

24 MR. HACK: All right. Local planning process, have the discipline
25 to avoid the flavor-of-the-month, properly evaluate on a global basis, long-range
26 planning, continually encourage regional cooperation, connect entrepreneurs with like
27 interest.

28 MS. MOORE: You could do the regional and collaboration,
29 available resources. Put it down under long-range planning.

30 MR. HACK: Continually encourage regional cooperation.

31 MS. MOORE: You could put that under identify, evaluate and
32 collaborate all available resources. What you're doing essentially is collaboration on
33 regional levels.

34 MR. HACK: Speaking for the Commissioner here, my
35 interpretation of where he was coming from was it seemed to me like he was thinking
36 pretty geographically. I may suggest that for our purposes it might be a distinct item,
37 because what I think he was thinking about is getting Southside and Southwest together.
38 Does anybody else think that?

39 MS. MOORE: You're talking about getting the counties in
40 Southside together and Southwest together probably more so than Southside.

41 MR. HACK: Do you think that fits under identify, evaluate and
42 collaborate resources?

43 MS. MOORE: In my opinion, after you have the bullet point, and

1 are you going to --
2 MR. HACK: We're not going to throw any of these away.
3 MS. NELSON: You can put that in there, but I think you're not
4 saying all available resources but all the resources plus the effort. If you're going to add
5 that in there, it is not talking about dollars, you're talking about power behind the project.
6 MR. HACK: Are we leaving it distinct or moving it in?
7 MR. OWEN: I think it's different. I think the last one here,
8 reflecting decision making process at the end of the day, what you would approve and
9 what you would not approve, is it broad enough in scope and regional enough to justify
10 it? I think that's what you're talking about.
11 MS. WALLACE: Can you take out that one up there, wouldn't that
12 go in there?
13 MR. GLASS: It either comes there or the long-range planning.
14 MR. HACK: As long as you're comfortable with it.
15 MS. WALLACE: That's where you need it with the plan.
16 MR. HACK: There's a long-range planning and local planning
17 process, and they were mentioned in two different contexts, I think. Jerry talked about
18 the importance of local planning and Mr. West or Mr. Jenkins talked about the long-range
19 plan, Mr. West.
20 MS. MOORE: I'm going to get back to the evaluate and collaborate
21 resources. That's from available resources. Promote, identify and evaluate and
22 collaborate and promote.
23 MS. NELSON: That's a big one.
24 MS. WALLACE: Can't we do something with planning, John-
25 Mark?
26 MR. HACK: You tell me. I would say, Linda, that a long-range
27 plan for the Committee is different but related to local planning.
28 MS. NELSON: I'd say from the Commission's standpoint, because
29 you've got long-range planning, the Commission's policy is to take care of the long-range
30 planning and what we're going to do about the grant cycle. In my opinion, that falls
31 under the umbrella of policies and procedures.
32 MR. HACK: I'm going to guess that Mr. West probably wants to
33 keep long-range planning separate but like the service delivery option proposal, evaluate
34 policies and procedures.
35 MR. MAYHEW: Put the local planning process all in one.
36 MR. HACK: Put the long-range plan on local planning efforts or
37 use local planning efforts to develop a long-range plan. Okay. Britt, evaluate
38 Commission's policies and procedures. All right, we're running out of time. This is the
39 hard part. I'm going to move this over here so everybody can see. This is not a perfect
40 process, but it will give you a real good, the most important steps that the Agribusiness
41 Committee can take. In no particular order, and just because I'm working left to right,
42 one, two, three, four. Everybody see those numbers? Five, six, seven, eight, nine, ten,
43 eleven, twelve, thirteen, fourteen, sixteen, seventeen, eighteen, nineteen, twenty, twenty-

1 one, twenty-two, twenty-three, twenty-four, twenty-five, twenty-six, twenty-seven, we're
2 down to twenty-seven. You've got five post-it notes. I'd like for you to take your five
3 post-it notes and spread them out in front of you.

4 MS. WALLACE: Aren't those the same?

5 MR. HACK: Advocacy to the Commission and Mr. Owen,
6 advocacy within the ag communities, convince others the value of agriculture can be
7 grouped together, and I believe that was Mr. Jenkins'. Let's take that one off, what about
8 the last one? Educate at the local level the importance of ag.

9 MR. WEST: Yes, we considered that.

10 MR. HACK: We've got twenty-five items here. You don't have to
11 pick out anything other than the five most important items to you. Work individually by
12 yourself and pick out the five most important items from that list and write the number of
13 that item in the middle of your post-it note. You can get up and move around and look at
14 the list if you want. We've narrowed our list to twenty-five items, what I need for you to
15 do is take your post-it notes and spread them out in front of you. You have to decide
16 what's most important. Pick out the five most important to you, and work by yourselves.
17 You don't have to rank them right now, I just want you to pick out from that list the five
18 that jump out at you. Put the number down in the middle of your post-it note. We tried
19 to eliminate some duplication, and we came up with twenty-five items. I'm going to read
20 over the list for you: Educate consumers, educate and assist entrepreneurs; promote,
21 identify and evaluate and collaborate all available resources; evaluate Committee policies
22 and procedures; leverage long-term Commission investment for near-term project
23 development; recognize the different nature of ag development projects for evaluation
24 purposes; identify stake holders; grass roots mind-set development; No. 9, identify
25 immediate projects and long-term projects; No. 10, have discipline to avoid the flavor-of-
26 the-month; properly evaluate on a global basis; No. 11, use local plans to develop long-
27 range planning; No. 12, continually encourage regional cooperation; No. 13, make sure
28 it's legal; No. 14 is develop core ideas, focus limited resources on core ideas; No. 15,
29 identify unmet needs and opportunity; No. 16, support farmland preservation; No. 17,
30 ensure sustainability of existing ag enterprises; No. 18, an agricultural development
31 summit; No. 19, generate more local buy-in from producers; No. 20, assess regional
32 strengths as it relates to agriculture; No. 21, promote success stories; 22, revolve, rotate
33 and spread the wealth; and we don't have 23, so 24, advocacy to the Commission for
34 worthy projects; 25, advocacy within agricultural communities.

35 MR. GLASS: I'd suggest make sure it's legal, because that needs to
36 apply to everything.

37 MR. HACK: That's not an option. Everybody agree with that? So,
38 there's no No. 13. I need for you to identify the five most important items to you and
39 write the number of that item down. Spread out your post-it notes. I need for you to pick
40 five out of that list. You've got to decide what is most important. The question was,
41 what's the most important thing the Agribusiness can do to facilitate agricultural
42 development in Southside and Southwest?

43 MR. OWEN: Where did local planning process go?

1 MR. HACK: We put that in No. 11, use local plans to develop a
2 long-range plan. It was Mr. West's suggestion to combine the two and put the
3 Committee's long-range plan based on that. Look at your five and pick out the most
4 important one to you from that five and put the number five in the top right-hand corner.
5 The one item that's the most important to you and put a five in the top right-hand corner.

6 What we're doing now is deciding a nominal value for each one of these items.
7 We're going to count the number of people who consider an item important, and we're
8 also going to find out how important people consider that item. You're going to have a
9 list of five items which represents the next step you all can take in terms of what the
10 Committee can do. Does everybody have the most important one of your five?

11 The next instruction is pick out the least important of your five and then put a
12 one in the top right-hand corner of the item. You picked out the most, now you're picking
13 out the least of your five. Anyone need more time?

14 Now, go back to the second most important item. Of the remaining three pick
15 out the second most important one of your five and put a four in the top right-hand corner
16 and finish your list in descending order, four, three, two. In a minute I'm going to ask
17 everybody to go up and put their post-it notes on the item that corresponds with the
18 number in the middle of their sheet. It may be a good idea to break for lunch, and then
19 we can tabulate, and as you all are eating we'll be able to see how these priorities shake
20 out. If you have your five take your post-it up and attach it to the number in the middle
21 of the post-it. What you're going to do is see a very distinct set of priorities emerging
22 from the process that everyone has had an opportunity to contribute to. Everybody has
23 participated, and everyone's been able to prioritize individually. We'll tabulate these as
24 you're eating your lunch.

25 This is the starting point, everybody gets a chance to participate. It looks like
26 identify, evaluate and collaborate and promote all available resources. We had fifteen
27 people participate, and thirteen felt like identify, evaluate and collaborate and promote all
28 available resources, thirteen of the fifteen felt that was the top priority. You gave it a
29 priority value of fifty-two for a total nominal value of sixty-five. That's by far the most
30 important thing you need to do as a Committee.

31 The next highest item was No. 2, educate and assist entrepreneurs. Eight
32 people gave it a priority value of twenty-four for a nominal value of thirty-two.

33 No. 11, use local plans to develop a long-range plan. Six of you gave that a
34 priority value of twenty-one for a nominal value of twenty-seven.

35 No. 15, identify unmet needs and opportunities, six of you gave that a priority
36 value of seventeen for a total value of twenty-three.

37 And, then four, fourteen and twenty-four, evaluate committee policies and
38 procedures, develop core ideas and focus resources on the core ideas and advocacy to the
39 Commission, all came in with a nominal value of twenty-two.

40 What I would suggest to you by way of interpretation is what you have here is
41 roughly a sequential order of items that I would recommend to you that you pursue. That
42 is identify, evaluate, collaborate and promote all available resources for your task. As
43 you do that you're going to be educating and assisting entrepreneurs. All of that activity

1 can be channeled with both local plans and Committee activity to develop long-range
2 plans. Those plans are going to put you in a position to both identify and meet unmet
3 needs and opportunities. As you do that you become more educated about your
4 evaluation of Committee policies and procedures, the core ideas and focus of limited
5 resources will be a no-brainer, and it will be naturally determined by that process. You
6 will have ample ammunition to advocate worthy projects to the Commission.
7 It's a starting point that gives you an idea of what this group feels like is most
8 important in serving or facilitating agricultural development in Southside and Southwest.
9 Thank you for your hard work.

10 VICE CHAIRMAN BRYANT: Pretty good brain-storming session.

11 MR. HACK: We tallied up all of them if you're interested in
12 knowing. It drops to eighteen after this, there's a clear break after these seven.

13 VICE CHAIRMAN BRYANT: We need to decide if we're going to
14 do a grant cycle. I think you said we had one point seven million, Tim.

15 MR. PFOHL: Is there another method of accomplishing these
16 priorities through a vehicle or delivery of our resources?

17 MR. MAYHEW: Given the time element we don't have time to
18 fully develop this for this money right now, do we?

19 MR. PFOHL: The money will not be use it or lose it, it will stay
20 with us, and it will carry over.

21 MR. OWEN: That's subject to the Executive Committee and the
22 Commission. I know we moved some money around one time.

23 MR. PFOHL: Good point.

24 VICE CHAIRMAN BRYANT: When will we hear from this beef
25 initiative, an evaluation?

26 MS. WALLACE: With the exception of some, we need requested
27 components, but there were about five forages requested. Barring fall feeding of that, I
28 would say this could be wrapped up by June or July. Dr. Reed at Virginia Tech has
29 compiled that data for a report to the Tobacco Commission. We'll send a questionnaire
30 and get that baseline data, and I think she could probably have that done by June or July.
31 We're making an effort to wrap this up, hoping you all will entertain the thought of a
32 regional project.

33 VICE CHAIRMAN BRYANT: What about Southwest, you hear a
34 lot of people say they want to participate, and we don't have our Southwest rep here.

35 MS. WALLACE: I got a call from John Stallard. He gave my name
36 and number to the Extension Agent in Scott County. There's two counties up there,
37 according to this young man, who are willing to come forward in the next funding round
38 with a similar project for Southwest. It's my understanding it only involves two counties,
39 so I don't know. The last word I got on that is that they were moving forward with a
40 request, and they're not going to wait on Southside.

41 MS. MOORE: My suggestion is I think the Committee ought to
42 have another meeting and identify your available resources. Dean Quesenberry of
43 Virginia State, before you make a conclusion if you're going to have an open process or

1 not. There maybe some ideas they have on the table that might fall in line with these
2 things, so I would strongly encourage you to at least have a chance to visit with them and
3 talk about it. That'll give a little more time to maybe further develop some of these
4 projects. Maybe have a status report as well as some collaboration from the Southwest
5 people on that. That kind of goes to some of the goals we talked about here to keep that
6 process. I think the another thing that would be interesting to hear from is the progress of
7 some of the berry production, there were two or three government proposals funded on
8 berry production, and see what's the next step for them. See if you can further invest in
9 something you've already done.

10 VICE CHAIRMAN BRYANT: I agree, I think we would be
11 premature to start that round. We do not want a scattered process. Someone said here
12 they'd seen some of that. We need to be focused and know exactly what direction we're
13 going.

14 MR. CURRIN: I've got a call in to the new dean at Tech, and I'm
15 meeting with people from Virginia State this afternoon. I know there's growers on this
16 Committee that have obligations, but maybe we can meet sometime in March, and if
17 that's too early, then April. We don't have our two Southwest folks with us, three with
18 Delegate Johnson. We'll communicate to them what's happened here, and maybe we can
19 meet sometime in March.

20 MS. MOORE: The other thing you can possibly do in preparation
21 for the next meeting is to put out a pre-proposal following up on Jerry's suggestion and
22 see how they feel and then wait for that to come forward and get some ideas from these
23 people, and that may help you develop a long-range plan and get ideas that people are
24 already thinking about.

25 MS. WALLACE: I hate to see people put all this effort in a beef
26 project when it may not go anywhere and may not be considered until the pilot project is
27 off.

28 MS. MOORE: If you get the proposal you at least know which one
29 you're going to move forward on.

30 MS. WALLACE: I certainly can't tell people don't do an
31 application, but you hate to see them do all that work.

32 VICE CHAIRMAN BRYANT: How does the Committee feel about
33 a pre-proposal?

34 MR. MAYHEW: I like the idea.

35 MR. PFOHL: We'll make it work.

36 MR. CURRIN: We'll generate some suggestions and work with
37 Martha in preparing for the next session. Last year we had close to two million for
38 Abribusiness, but we're in the budget preparation cycle now.

39 MR. MAYHEW: What about the indemnification?

40 MR. CURRIN: I'm going to call Stephanie today. I'll be in touch
41 with you all very shortly what we have to do on that.

42 VICE CHAIRMAN BRYANT: The information we put together
43 today, will that be sent out to people like Linda?

1 MR. CURRIN: We're going to put the presentations on our web site
2 as well. The other Committee members who weren't present will get a copy.

3 MR. HACK: Mr. Chairman, I'd just like to chime in as somebody
4 that given the relatively limited geographic areas that the Commission covers in
5 Southside and Southwest, a properly designed and executed planning process that would
6 harvest the input from local communities from beginning to end could be done in as little
7 time as a hundred and twenty days. With the best case scenario that would give you
8 time, and recognizing that nobody else has anything else to do, my point is that it is not a
9 year-long process.

10 VICE CHAIRMAN BRYANT: What's the pleasure of the
11 Committee as far as when you want to meet again?

12 MR. CURRIN: There's a Full Commission meeting on March the
13 4th in Richmond to talk about the technology.

14 VICE CHAIRMAN BRYANT: I won't be at the meeting on the 4th.

15 MS. NELSON: I know there's a meeting at Tech on the 5th of
16 March.

17 VICE CHAIRMAN BRYANT: Let's see what we can put together,
18 and we'll work with the Staff and go from there. So, we'll stand adjourned.

19 PROCEEDINGS CONCLUDED.

20 CERTIFICATE OF THE COURT REPORTER

21
22
23 I, Medford W. Howard, Registered Professional Reporter and Notary
24 Public for the State of Virginia at large, do hereby certify that I was the court reporter
25 who took down and transcribed the proceedings of the **AgriBusiness Committee**
26 **Workshop when held on February 12, 2004 at the Washington Building,**
27 **Department of Agriculture and Consumer Services, Richmond, Virginia.**

28 I further certify this is a true and accurate transcript to the best of my
29 ability to hear and understand the proceedings.

30 Given under my hand this 23rd day of February 2004.

31
32
33
34
35 _____
36 Medford W. Howard
37 Registered Professional Reporter
38 Notary Public for the State of Virginia at Large
39
40
41
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43 My Commission Expires: October 31, 2006.

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